



**AFRICAN DEVELOPMENT BANK GROUP**

**THE BANK'S APPROACH TO AFRICAN  
MIGRANT REMITTANCES**

**THE MIGRATION AND DEVELOPMENT INITIATIVE**

March 2009

Prepared by OIVP

## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY</b>	i
<b>ABBREVIATIONS</b>	iii
<b>I. INTRODUCTION</b>	1
<b>II. BACKGROUND</b>	1
<b>The Remittance System</b>	2
<b>The International Agenda and On-Going Activities</b>	3
<b>III. REMITTANCES IN AFRICA</b>	6
<b>IV. THE BANK'S EXPERIENCE</b>	8
<b>Completed and on-going Activities</b>	8
<b>Lessons Learned</b>	9
<b>V. THE BANK'S INITIATIVE</b>	10
<b>Objectives</b>	10
<b>Activities</b>	11
<b>Principles</b>	14
<b>VI. IMPLEMENTATION OF THE BANK'S INITIATIVE</b>	15
<b>Mainstreaming Remittances and Diasporas in the Bank's Operations</b>	15
<b>Addressing the financial resources requirements</b>	15
<b>Institutional and Human Resources Requirements</b>	16
<b>VII. CONCLUSIONS</b>	17

## **EXECUTIVE SUMMARY**

Migrants' remittances are recognized as one of the major sources of financial flows to developing countries. They were officially estimated at over USD 320 billion in 2007. Various corridor-specific and empirical studies suggest that remittances sent through informal channels could add, at a minimum, an additional 50 percent to the official estimates, making it the largest source of external capital in many developing countries. Recognizing the important role remittances play in developing countries at the macroeconomic level and in addressing the needs of the poor in developing countries, as well as the weaknesses of official data, the G8 launched in 2004 the Global Remittances Initiative. The initiative aims at improving data collection, making the regulatory framework more conducive to lowering the costs of transfers, reducing the informal sector and enhancing the developmental impact of these transfers. Throughout the last decade, an increasing amount of attention has been paid to the potential of migrants' remittances to contribute to the development of their countries of origin. Several country-specific studies have been undertaken to estimate the scale and nature of remittances and investigate their impact on development. However, in the case of Africa, existing data remains fragmented and unreliable, making it difficult to develop specific and well-articulated development programs, to ensure better use of these resources.

In Africa, remittance inflows have been growing steadily in the course of the last 10 years, while official development assistance (ODA) and foreign direct investment (FDI) have been fluctuating. Remittances have played a key role in several African countries, from LDCs such as Comoros, Mali, Togo and Uganda, to more advanced economies such as Egypt, Morocco and Tunisia. In 2007, the Bank conducted a study of four corridors: France-Comoros, France-Mali, France-Morocco and France-Senegal. Results indicate that remittances represent between 9 and 24% of GDP and between 80 and 750% of ODA. Most of these resources benefit poor households, mainly in remote areas, helping to meet their basic needs and allow purchasing critical goods and services, including food, education and healthcare. The Bank's study's findings indicate that the size of the informal sector varies from one country to another. However, it remains important even where the financial infrastructure is slightly developed.

The overall objective of the ADB's Initiative on Migration and Development (the Initiative) is to maximize the development impact of remittances by increasing their productive use, promoting business opportunities, and job creation at the grassroots level.

Should the Bank be able to achieve in Africa the same success that the Inter-American Development Bank (IADB) recorded between 1999 and 2008 in Latin America - i.e. about 9% reduction of remittances costs over a 9-year period - the annual amount of remittances reaching African beneficiaries, grossly estimated around \$50 billion, could be increased by \$4-5 billion, which is equivalent to the Bank's current annual level of commitments. Although better knowledge of remittances flows and patterns is necessary, more concrete and well targeted projects are also needed to achieve reduction of costs and better mobilization of migrants' resources and competencies. It is essential, in particular, to improve competition in the transfer market, help develop new financial products, assist migrants' projects and local development efforts.

Through the Initiative, the Bank intends to contribute to better mobilizing remittances as a flow of resources to recipient countries; increasing the flow of resources to the end beneficiaries while allowing better control on the amount transferred by the migrants; promoting more effective uses of funds for social consumption (by supporting mutual schemes in health, public private partnership in the areas of education and health); and supporting productive use of available resources with the involvement of local entrepreneurs. It is expected that these efforts will therefore contribute to strengthening financial systems in receiving countries, in particular by empowering local agents such as MFIs.

As a first step toward proper implementation of the Initiative, Management will propose to set up a trust fund, expected to be multi-donor, which will allow supplementing the Bank's limited resources to support projects initiated by migrants and diasporas; initiate and support the development of innovative financial products; support pilot projects with high success potential but still considered too risky by financial institutions because of their innovative character; support the development of local infrastructure projects sponsored by migrants and facilitate sharing knowledge and experiences among African countries. Thanks to the results of such efforts, the Fund will be able to create conditions for better coordination and mobilization of resources and competencies aiming at leveraging on the migrants potential for development and poverty reduction in concerned African countries and regions.

The creation of such trust fund was well received by several partners, which have requested its creation as soon as possible. France has already committed to allocate Euro 6 million to the fund. Spain and the International Fund for Agricultural Development (IFAD) have shown interest in joining the fund. The creation of this trust fund for the Migration and Development Initiative is expected to be submitted to Board approval before the middle of April 2009. OIVP Front Office has the needed resources to manage the Initiative in the early phase of its implementation, pending an overall assessment of the appropriate institutional arrangements and resources requirements, in view of the growing number and size of activities managed by the Front Office.

The Board is invited to take note of the Initiative.

## ABBREVIATIONS

AFD	Agence Française de Développement
ARI	Africa Remittances Institute
CIDA	Canadian International Development Agency
CGAP	Consultative Group to Assist the Poor
DFID	Department for International Development of UK
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIB	European Investment Bank
EU	European Union
FDI	Foreign direct investment
FMO	Netherland development finance company
GTZ	German technical cooperation agency for development
IADB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation of the World Bank Group
IMF	International Monetary Fund
LDC	Less-developed country
MFI	Microfinance institution
MF4A	Making Finance Work for Africa
MTC	Money transfer company
NGO	Nongovernmental organization
ODA	Official development assistance
PPP	Public private partnership
SME	Small and Medium Enterprises
UNCDF	United Nations Capital Development Fund
WBG	The World Bank Group

## **I. INTRODUCTION**

1. Since 2006, the Bank has been implementing several activities related to migrant remittances to Africa and the demand for Bank activities in support of remittance operations has been growing. In October 2008, following a call for proposals among several sister development institutions, the French Ministry of Immigration, Integration, National Identity and Development in Solidarity announced the selection of the African Development Bank for hosting a new fund, expected to be created as a multi-donor trust fund, to mobilize the resources and competencies of migrants for the benefit of their countries of origin. This proposal met the Bank's approach and helped in shaping its initiative, which aims at leveraging African Diasporas' human and financial resources to strengthen sustainable development efforts of their countries of origin. On the basis of these developments, the Bank's activities related to remittances were consolidated into an integrated initiative and it will be proposed that a related fund to support the initiative be created. The primary purpose of this paper is to inform the Boards on the steps being undertaken by Senior Management to implement the initiative. The Board will be invited at a later stage to approve the creation of the multi-donor trust fund for Migration and Development.

2. This paper is organized in seven sections. After this introduction, the second section provides background information on the remittance system and its significance on the international scene. The third section gives a brief overview of remittances in Africa. The fourth section presents the Bank's experience to date and the lessons learned. The fifth and sixth sections introduce the Bank's Initiative based on the issues raised in previous sections and its implementation arrangements. The final section summarizes the main conclusions and presents the way forward.

## **II. BACKGROUND**

3. Migrants' remittances<sup>1</sup> are recognized as one of the major sources of financial flows to developing countries. They were officially estimated at over USD 320 billion in 2007. Various corridor-specific and empirical studies suggest that remittances sent through the informal channels could add at least 50 percent to the official estimates, making it the largest source of external capital in many developing countries<sup>2</sup>. Today 1 in 10 people around the world is directly involved in remittances, either sending or receiving them. In 2005, it was estimated that approximately 125 million migrant workers sent money to support 500 million family members in their home countries<sup>3</sup>.

4. Available data and analysis indicate that remittance inflows have been critical in addressing, at grassroots and household levels, the effects of natural disasters and economic crisis. They also played an important role in reducing poverty and in entrepreneurship development. There is a consensus that an increase of 10% of remittances flows contributes to decrease absolute poverty rate by over 1.5%<sup>4</sup>. Because of its countercyclical role, migrants' remittances are an important factor of country financial

---

<sup>1</sup> Remittances refer to cross-boarder recurrent payments of relatively small amount from migrants workers to their relatives in their countries of origin.

<sup>2</sup> ADB "Migrant Remittances, a Development Challenge", 2008; World Bank News Release No. 2005/201 Nov. 16, 2005 "Migration Can Deliver Welfare Gains, Reduce Poverty. Says Global Economic Prospects 2006"

<sup>3</sup> International Migration, remittances and rural development, IFAD, 2008

<sup>4</sup> See the IFAD's Study mentioned-above and the reports they are referring to.

stability. This is true even under specific circumstances they may generate market distortions, and in particular artificial currency appreciation and tensions in local goods and services markets.

### **The Remittance System**

5. Based on existing studies, including those conducted by the Bank itself, it is important to underscore the fact that remittances are not just about individual money transfers. Rather, they should be considered as an integrated and dynamic system in which each actor - *the migrant, the recipient, government, the formal financial intermediaries, the informal financial operators* - has its own motivations and strategies and faces its own constraints, some of which are related to the existing financial system (considering both the formal and informal intermediaries as part of that system) and some to social and cultural constraints.

6. The first objective of the *Migrant* is to maximize the volume of resources transferred in the most direct, convenient, safe and, where possible, cost-effective manner. The first concern of *Remittance Recipients* is to receive funds on a regular basis and, at times, when the need arises, in advance. *Governments' interest (in the country of origin)* is to maximize the resources mobilized and enlarge their tax base. The *Formal Financial Intermediaries* are interested in increasing the inflow of funds channeled through their system to increase their revenues and their capital base for on-lending. The *Informal Operators'* objective is also to maximize the flow of funds channeled through their system to increase their revenues (from commissions, etc.).

7. Each player in the remittance flow process has unique needs and encounters specific constraints, the main of which are identified below:

#### *Migrants*

- Lack of full confidence in financial intermediaries (except for money transfer companies [MTCs], the credibility and stability of the intermediary is often questioned, particularly in francophone countries);
- Exchange rates applied are often significantly less favorable than market rates;
- Banking and financial products offered by financial intermediaries (banks, microfinance institutions [MFIs], nongovernment organizations [NGOs], etc.) are often not tailored to the needs of a large number of migrants;
- Limited knowledge of products offered by financial intermediaries;
- Lengthy execution of money transfers;
- High fee structure, particularly in relation to the amount of funds transferred;
- Riskiness of informal channels for money transfers.

#### *Remittance Recipients*

- Lack of banking and financial products offered by financial intermediaries (banks, MFIs, NGOs, etc.) tailored to the needs of remittance recipients;
- Poor geographical coverage of rural areas, where most recipients live;
- Recipients' limited knowledge of products offered by financial intermediaries.

#### *Governments (country of origin)*

- Inefficient financial systems;
- Inappropriate policies and regulations to attract remittances into formal channels;

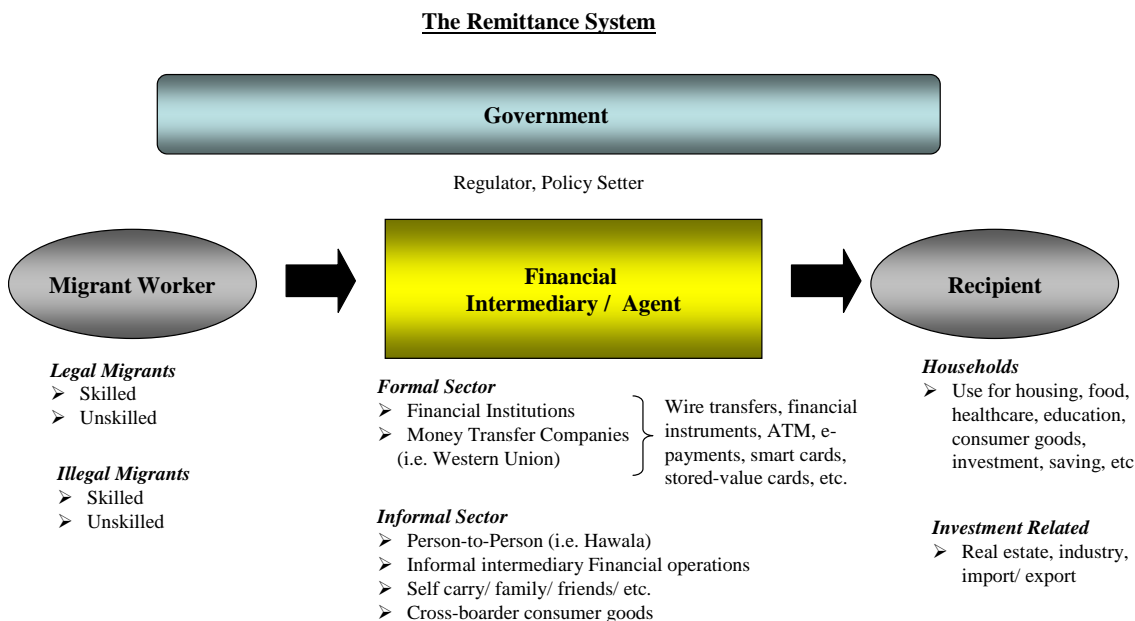
- Difficulty in ensuring that remittances are not utilized for money laundering and terrorism financing purposes.

*Formal Financial Intermediaries*

- Weak or non-existent financial instruments tailored to remittance flows;
- Weak or non-existent financial links between the hosting country and migrant’s country of origin;
- Limited capacity and physical infrastructure, particularly in rural areas in the countries of origin (in several countries, banks keep branches only in the main urban centers );
- Insufficient infrastructure to take advantage of technological innovations and new products or develop necessary business linkages;
- Costly implementation of the Financial Action Task Force’s “Know your customer” rules and processes and difficulty for migrants and remittance recipients to produce the necessary documentation.

*Informal Sector*

- No legal recourse mechanisms, deriving from the unregulated nature of the sector;
- Partial or complete lack of documentation required for money transfers;
- No incentives to become formal



8. Significant barriers are in place for channeling funds to productive uses. This is particularly true for migrant workers, who may investment opportunities in the country of residence but not in the country of origin due to the lack of conducive business environments (investment laws, procedures, bureaucracy, etc) and adequate information infrastructure (market data, contacts on the ground, etc.).

**The international agenda and on-going initiatives**

9. Recognizing the important role remittances play in developing countries for macroeconomic stability and in addressing the needs of poor, as well as the weaknesses of official data, the G8 launched in 2004 the Global Remittances Initiative. The initiative

aims at improving data collection, improving the regulatory framework, lowering transfer costs, reducing the informal sector, and enhancing the developmental impact of these transfers. As part of this initiative, the Luxembourg Group was created in 2006 to lead the international work on data collection and improve estimation of remittances flows as part of balance of payments statistics. This work is led by the IMF and the World Bank with European Eurostat playing the secretarial role. Thanks to this global awareness initiative, data collection on remittances is improving and the important economic role of migrants and Diasporas is increasingly being given recognition. In parallel to the Luxembourg Group work, a taskforce led by the Bank for International Settlement and the World Bank developed a set of general principles to assist countries improving their remittances services<sup>5</sup>. In July 2008, the G8 announced the formation of a Global Remittances Working Group and invited the World Bank to coordinate this international effort.

10. Throughout the last decade, increasing attention has been paid to the potential of migrant remittances to contribute to the development of their countries of origin. Various country-specific studies have been undertaken to estimate the scale and nature of remittances and investigate their impact on development. However, most of these studies focus on the Middle East, Latin America and South-East Asia. In the case of Africa, existing data remains fragmented and unreliable, making it difficult to develop specific and well-articulated development programs that would ensure better use of these resources.

11. The lack of a framework for the collection of reliable data on international migration statistics and remittance flows is a major obstacle for policymakers, governments, service providers and development organizations. Most sources utilize the International Monetary Fund's Balance of Payments statistics to estimate remittance inflows; however, these do not capture informal transfers of funds and partly ignore smaller amounts. There is also insufficient data on the kinds of remittance channels used, the main uses of remitted funds (consumption versus investment) and the social impact of remittances on poverty reduction, female empowerment, education and healthcare. The only significant body of research on remittances to date has been carried out by the IADB's Multilateral Investment Fund, which has estimated that the average cost of remittances to Latin America has been reduced from about 15% on average in 1999 to less than 6% in 2007.

12. The lack of data, particularly in Africa, is the first issue that needs to be addressed. To address this major impediment, the Bank is working jointly with the World Bank on an Africa Migration Project. The flagship report on the study entitled *Migration, Remittances and Development in sub-Saharan Africa* will fill the knowledge gap on the trends, determinants and impacts of migration and remittances on selected African countries. This work started in early 2007 and has been conducted with financial support from France, DFID, Denmark, IFAD and CIDA. Its results are expected by 2010 and will cover 11 Sub-Saharan African countries, allowing for a more accurate estimation of remittances flows and their impact on growth, exchange rates and competitiveness. The study analyzes the entire value-chain of remittances, from the sending to the receiving end and considers all migrations (including intra-African movements); it is expected that this will improve

---

<sup>5</sup> General Principles are related to: Transparency and Consumer Protection; Payment System Infrastructure; Legal and Regulatory Environment; Market Structure and Competition; and, Governance and Risk Management.

central banks' knowledge, enabling them to better assess remittances inflows and the impact on their countries' economies.

13. There are few other on-going initiatives partially or fully focused on Africa aiming at improving the quality of data and mobilizing migrants' remittances. The following are to be mentioned:

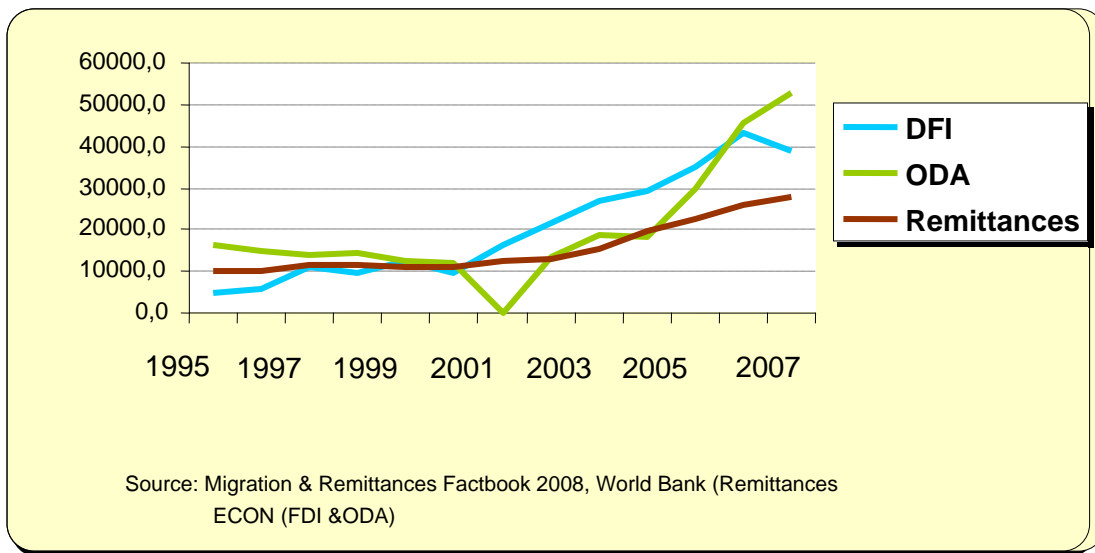
- *The WBG's Study on migration from North Africa to Europe*, similar in scope to the ongoing AfDB-WBG study.
- *IFAD's multi-donor Financing Facility for Remittances*. Launched in 2007, it involves IFAD in partnership with EU, IADB, CGAP and UNCDF. This facility, world-wide in scope, assists linkages of non-profit organizations with financial intermediaries (banks, MFIs, MTCs, etc.) to improve remittances services in rural areas and channel these resources through rural financial infrastructure with two major objectives: 1. reduction of transfers' costs; and 2. increase opportunities to make productive use of these resources to contribute to fight poverty among benefiting households and grassroots. This project is at its early stages of implementation and has so far supported very few operations in the world, one of which is in Africa (housing project in Senegal).
- *The Africa Remittances Institute (ARI) Project* led by the AU with the technical support of the WBG and the financial support of the EC. The EC has recently approved the financing of the ARI up to Euro 1.7 million, with the objective of building capacity of AU Member States, remittance senders and recipients, and financial intermediaries to develop and implement strategies and operational instruments to use remittances as development and poverty reduction tools. The Institute is being created partly in response to the common position on Migration and Development adopted in July 2006 by the African Heads of State Summit of Banjul.

14. Bilateral agencies from UK, France, Germany and The Netherlands are also active in supporting or leading specific projects in several countries. These projects, which also include vocational training and support services, aim at facilitating investments from migrants and Diasporas in their regions of origin, particularly in the real estate and productive sectors. They also aim at promoting better use of remittance inflows in addressing the social needs of receivers (such investment in roads, health and education infrastructure, introduction of micro-insurance schemes, etc.). Information on these ongoing activities remains limited, pointing to a lack of coordination amongst them and leading to a marked difficulty in building a common knowledge base of lessons learnt that could assist in promoting a more development-oriented use of remittances.

15. The work already undertaken by the Bank, its partnership with most of the key development partners in the area of remittances, its own public and private investment programs and its relationship with key African stakeholders position the Bank as the best institution in catalysing ongoing efforts towards responding to the needs and expectations of migrants and end-beneficiaries and ensure optimum use of migrants resources to support economic development in countries and regions concerned.

### III. REMITTANCES IN AFRICA

16. In Africa, remittance inflows have been consistently growing over the past 10 years (see chart below), while official development assistance (ODA) and foreign direct investment (FDI) have been fluctuating. Remittances have played a key role in several African countries, from LDCs such as Comoros, Mali, Togo and Uganda to the more advanced economies such as Egypt, Morocco and Tunisia.



17. The current international financial crisis seems to already be having a negative impact on remittances flows. The World Bank estimates that remittances to developing countries in 2009 will likely be 1% to 6% lower than in 2008. According to the IADB, the projected growth rate of remittances in Latin America, the best surveyed region in the world for remittances, will slow down significantly. It is estimated that, in 2008, money transfers to this region have contributed almost 2% less to household incomes than in 2007. Although the lack of reliable monitoring mechanisms in Africa makes it difficult to assess the impact on the continent, a parallel can be drawn with Latin America. Given the current size of the crisis in Europe, where the majority of African migrants live and work, the impact is likely to be slightly less important than in Latin America.<sup>6</sup> Newspapers and periodicals report that African migrants are facing increasing difficulties in countries such as France, Italy and Spain, but they seem to thus far remain limited. Moreover, it should be considered that the crisis will have a stronger impact on the major currencies, such as the USD or the Euro: it is likely that this will result in a relative depreciation of local currencies and therefore will, to some extent, lower the negative effect on the incomes of benefiting households<sup>7</sup>.

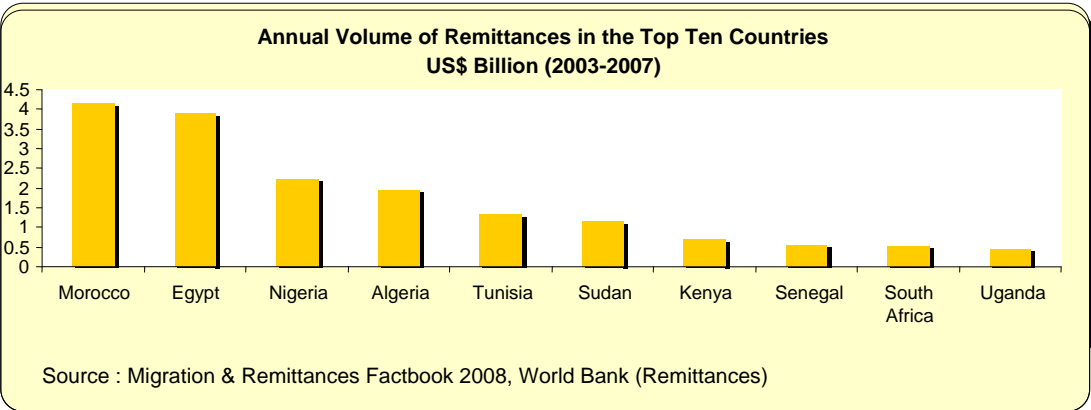
18. Although little is known about remittances in Africa, in its overall assessment the IADB estimates that remittance flows in Africa amounted to approximately USD 50

<sup>6</sup> It can however be argued that the bulk of remittances to Latin America comes from the USA, which were very directly impacted by the financial crisis. The impact of remittances to Africa, mainly coming from Europe, may therefore be less and probably felt later,

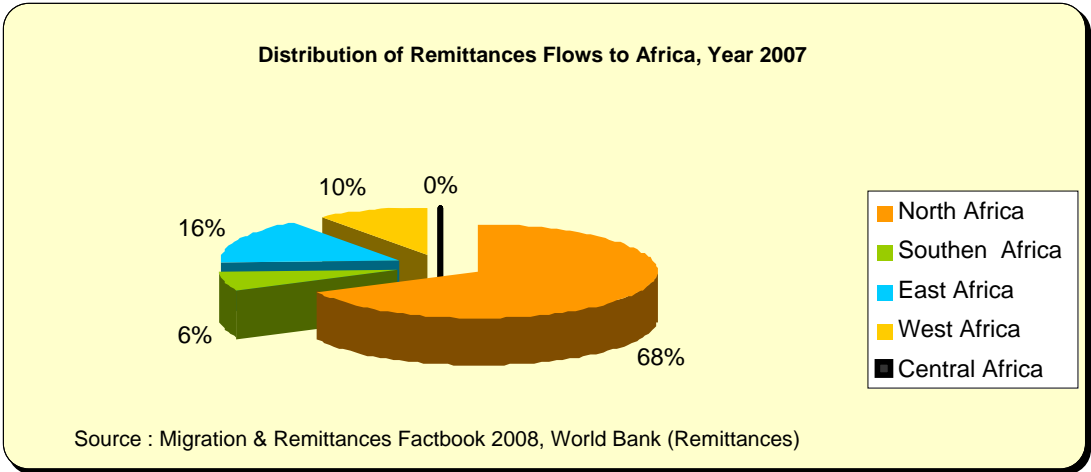
<sup>7</sup> In "Immigrants and the Current Economic Crisis" Migration Policy Institute (USA, January 2009), Demetrios G. Papademetriou and Aaron Terrazas have reported on the increase of the real value of remittances to Brazil, India and Mexico due to a depreciation of these countries currencies against the USD.

billion in 2007, which is consistent with the estimate made by the Bank on the basis of its recent study (footnote 2). From 2000 to 2007 they have increased by more than 141 percent<sup>8</sup>.

19. In many African countries remittances are the most important and stable source of capital inflows, in some cases largely exceeding FDI and ODA. For example, in Morocco, remittances make up 637% of FDI and 452% of ODA; in Egypt, 467% of FDI and 225% of ODA; and in Cape Verde, 929% of FDI and 103% of ODA. It should be taken into account that these figures are based on formal data and officially recorded remittances, which are estimated to cover at most 50% of the remittance funds entering African countries. The charts below provide information on the top ten recipient countries for which information seems to be more accurate.



20. As shown in the chart below, North Africa is the first recipient region, followed by East Africa. However, this is based on largely questionable data due to the quality of statistical systems of many RMCs.



<sup>8</sup> J.C Anyanwu and A.E.O. Erhijakpor: “Do international remittances affect poverty in Africa?” ADB November 2008. This increase may also partly reflect better monitoring of remittances by African central banks.

21. Although limited work has been done to date on labor migration and remittances in Africa, some institutions, and particularly the Bank, have started to conduct in-depth research and studies.

#### **IV. THE BANK'S EXPERIENCE**

##### **Completed and On-going Activities**

22. **Migrant Remittances, a Development Challenge (2007).** In addition the study being conducted with the World Bank (see para. 12 above), in 2007 the Bank, with financial assistance from France, conducted an in-depth study titled "Migrant Remittances, a Development Challenge" (see footnote 2). The study covered four countries, namely Comoros, Mali, Morocco and Senegal, which present contrasting economic and sociological characteristics while sharing strong links with the same developed country, France. Results indicate that, for these countries, remittances represent between 9 and 24% of GDP and between 80 and 750% of ODA.

23. In the four countries covered by the study, results show that most of these resources benefit poor households (80% of beneficiaries), mainly in remote areas. They help meeting basic needs and purchasing critical goods and services, including food, education and healthcare. Unlike foreign aid, migrant remittances go directly to families that are often difficult to reach with development assistance. Some estimates indicate that, in Africa, a 10 percent increase in international remittances as a share of GDP leads to a decline of almost 3 percent in the amount of people living in poverty<sup>9</sup>.

24. The study confirmed findings from studies in various regions of the world that migrant workers face difficulties in accessing financial services tailored to their needs, due to language, cultural, legal and socio-economic barriers. Coupled with the undeveloped financial systems in many countries of origin, it often leaves migrants with no choice other than resorting to informal channels for remittances. These informal channels do not always provide secure services and are often coupled with high transaction costs. Further, they are often not legally registered or formally recognized and provide no recourse in cases of misappropriation of remittance funds. In many cases they do, however, offer more flexibility and appear to be better tailored to migrants' needs and recipients' expectations.

25. The Bank's study findings indicate that, while the size of the informal sector may vary from one country to another, it remains important even where the financial infrastructure is only partially, as for example in Morocco. The study underscores considerable differences in the volume of remittances sent through informal channels, which constitutes between 25 and 80%, depending on the country. Migrant behavior is mostly determined by the diversity of services offered, ranging from formal banks and money transfer companies (MTCs) to individual couriers. Prices and behavior specific to each region are only secondary decision factors. Indeed, the more competitive the market, and the denser the agency network, the more remittances tend to take the formal channel. MTCs are largely characterized by the high cost of the transfers (with a commission charge between 5 to 20% on average), which are due to mutual arrangements with banking agencies, post offices and microfinance institutions and to the lack of strong competitors.

---

<sup>9</sup> See J. Anyanwu and A.E.O. Erhijakpor cited above.

26. In spite of its weaknesses, and in particular the risks they entail, informal remittance channels have shown to be more responsive to the needs of migrant workers, often offering services that are not available through conventional financial institutions (the Bank's study has identified five informal methods of transfer, from the use of the fax machine to cash sent in an envelope by courier). An example is advance transfers to families or access to goods in the country of origin, lent on future earnings of the migrant worker. However, these flexible systems are usually accompanied with high transaction costs.

27. The Bank's study has also showed that earmarked resources for investment, either in the real estate or in the productive sector, are important. Their volume varies between 25 and 60% of the total transfers, depending on the socio-economic profile of the senders, with the better-qualified and higher-earning migrants allocating more resources to investment in these sectors. The final report of the study (Attachment 1) and a related-DVD produced as part of it (Attachment 2) are attached to this paper to provide more detailed information on the findings.

28. **Remittances to Uganda and Rwanda (2008-2009).** In order to explore the possible use of the platform developed through the Multilateral Investment Fund of IADB for assessing remittance flows, lowering the cost of transfers and enlarging the outreach and role of local MFIs, in mid-2008 the Bank conducted, with the financial assistance of DFID, a series of surveys in Uganda and Rwanda, countries with a significant proportion of nationals living abroad. The information gathered largely confirms the findings stated above. In particular, the study, which assessed the overall flows of formal and informal remittances, highlighted the large differences between its results and the official figures. In Uganda, the Central Bank statistics have recorded a significant increase over the past few years (tripling from 2005 to 2007) after a 2006 bank survey of recipients. The study recommended a number of policy options. Two workshops will be organized, one in each country, in the second half of 2009 to share the study finding with the governments and other stakeholders and design capacity building programs for microfinance institutions involved in remittances.

29. **Other Activities (2009).** The Secretariat of Making Finance Work for Africa, hosted by the Bank, is engaged, in coordination with the Bank and other bilateral and multilateral development partners, in the preparation of a meeting aiming at laying the foundations of better coordination among the key players in the field. The first meeting is scheduled to take place in April 2009 in London and will be followed by an additional meeting in June. In addition, the Bank has recently been approached by the World Bank to join the Global Remittances Working Group created by the G8 in July 2008 (see para. 9 above). The Bank was also invited by IFAD to co-organize the International Forum on Remittances 2009 and the Remittances, Business Models and Technology Fair, to be jointly held in Africa in mid-2009. Given the importance of remittances for Africa and the leading role that the Bank can play on the Continent, the Bank will probably respond positively to both invitations.

### **Lessons Learned**

30. The lessons learned from the international experience and the Bank's activities are the following:

- The flows of remittances are not very well known and generally grossly underestimated, especially in Africa. Better knowledge of the flow would allow to focus the attention and interest of all stakeholders;
- As the leading African development institution, with its unique position as a platform for exchanges of experiences and know-how in the continent, and its partnership with most bilateral and multilateral institutions working on remittances (WBG-IFC, IFAD, EIB, EBRD, AFD, DFID, GTZ, FMO, CGAP, among others), the Bank should play a more proactive role in leading the efforts to mobilize the resources and competencies of migrants for the benefit of Africa;
- Internally, there is a need to strengthen the attention given to remittances and the role of migrants in the Bank's investment programmes in its RMCs;
- If the Bank is able to play a role in the reduction in the cost of remittances to Africa comparable to that played by the IADB in Latin America – where the cost of remittances decreased by about 9% between 1999 and 2008 - the annual amount of remittances reaching African beneficiaries, estimated at around \$50 billion, could be increased by almost \$5billion, which, for comparison purposes, is close to the current annual level of activities of the Bank;
- Although better knowledge of remittances flows and patterns is necessary, concrete and well targeted projects are also needed to achieve a reduction of costs and a better mobilization of migrants' resources and competencies, in particular to improve competition in the transfer market, help develop new financial products, and assist migrants' projects and local development efforts.

These lessons learned from the experience of the Bank and its partners form the basis of the Bank's Initiative on Migration and Development (the Initiative).

## **V. THE BANK'S INITIATIVE**

### **Objectives**

31. The Bank has assigned a high priority to the promotion of remittance flows as a development tool and a link to the private sector. The overall objective of the ADB's Initiative on Migration and Development is to maximize the development impact of remittances by increasing their canalization into productive investments and promoting business opportunities and job creation at the grassroots level. The Bank aims to support the development of financial services for migrant workers and create incentives to channel funds into productive uses in the country of origin.

32. The first priority for the recipients of remitted funds is typically to cover basic needs. Only limited funds are available for savings and investment. Therefore, it will be important to look at mechanisms that help reduce transfer costs and increase the resources available for savings and direct investment. The transfer costs were equally high in many other regions of the world, and particularly Latin America, where, thanks to the role played by the IADB and its local partners, the fees of MTCs were reduced by over 10 points in a couple of years. Assuming a 5-point reduction in transfer fees and considering only formal transfer mechanisms, it is estimated that Africa will experience a USD 2.5

billion increase in savings for both senders and receivers. Such amount could at least in part contribute to boosting local development efforts and limiting the potential effects of the current financial crisis on concerned African countries, migrants and end-beneficiaries.

33. The Bank's involvement in remittances is also consistent with its Poverty Reduction Strategy (as more funds will be received at the household level), as well as its Private Sector Development Strategy. Remittances may constitute another channel to help countries strengthen their financial systems, create an enabling environment for private sector development, and strengthen the effectiveness of programs aiming at promoting MSME development, thanks to the greater proportion of funds channeled to productive uses.

34. The Bank will focus on promoting strategic alliances and networking, developing new financial products, channeling funds to productive uses, and building capacity at the association and institutional levels.

35. The ADB has five main operational objectives related to remittances:

1. **Better mobilize remittances as a flow of resources:** From the macro level, by promoting savings mobilization and directing funds through official channels, more resources will be available for credit to individuals and private sector entities;

2. **Increase the flow of resources to the end beneficiaries while allowing better control on the amounts transferred by the migrants:** achieved through reducing transaction costs and by supporting the design, test and introduction of new tools and products;

3. **Empower local communities and households:** by promoting more effective uses of funds for social consumption (by supporting mutual schemes and public private partnership in the areas of education and health) and supporting the productive use of available resources through the involvement of local entrepreneurs; and

4. **Contribute to strengthening financial systems in receiving countries,** in particular by empowering local agents, such as MFIs, as players.

5. **Contribute to combat money-laundering:** through the absorption of the informal sector and better offers from the formal bank and non-bank sectors, the remittance-related activities will also contribute to the reduction in the risk of remittances flows being used for money-laundering purposes.

## **Activities**

36. To meet these overarching objectives, four major activities need to be conducted:

1. Improve Data Collection;

2. Improve Mechanisms to channel resources;

3. Raise Awareness of the key stakeholders and the public at large

4. Develop Programs and Support Projects to Roll-out Innovations

1) Improve Data Collection:

37. Across Africa, while remittance flows are important, little is known about the scale of remittances (particularly in the informal sector), remittance channels and the use of funds in the country of origin. In addition to its work with the World Bank, and in line with the work undertaken with the support of France and DFID, the Bank intends to conduct a number of country assessments. These assessments will aim at increasing the knowledge base for African remittances and assist in identifying obstacles to efficient remittance flows, use of funds and appropriate policy responses in order to better design programs and projects in the countries in question. The sociology of remittances plays a key role in understanding the remittance process; as such, to be able to design proper systems and related policies and regulations, it is necessary to obtain a better understanding of who the remitters are, the reasons why they send money home, the modalities through which they transfer the funds, the uses these funds are put to by the recipients and the benefits realized by the various stakeholders through the transfer of funds. It is particularly important to understand how money is used at the household level to determine how households can use these funds to become more self-sustaining, while contributing to strengthening the financial market and reducing money laundering risks. The study conducted by the Bank in Comoros, Mali, Morocco and Senegal provided responses to the questions above and concrete recommendations that can be translated into specific projects.

38. Several studies, including the one conducted by the Bank, indicate that the bulk of remittances, about 80%, is used to cover basic needs such as food and housing. The remaining 20% of remittances is available for savings and small investments. While the latter figure may appear to be relatively small, when the total size of these flows is considered, these cumulative amounts are significant<sup>10</sup>. Remittances can be a powerful lever to strengthen financial systems, mobilize savings, generate small business loans, and multiply the economic impact for millions of individual families and the communities in which they live.

2) Design Mechanisms to Channel Resources and Tailor-made Products:

39. The studies mentioned above conclude that several shortcomings exist in the existing mechanisms for channeling resources from migrants to beneficiaries of remittances in the countries of origin. They also underline the difficulties migrants wishing to invest in their countries of origin face, due to the existing regulatory framework, lack of adequate financial intermediaries support and cultural constraints<sup>11</sup>. It is therefore critical to design mechanisms to transfer money that will be attractive to all

---

<sup>10</sup> The study of the Bank indicate that no less than Euro 2.2 billion are invested in Morocco in Real Estate and productive investments. The figures stood at Euro 490 million in Senegal and Euro 270 million in the case of Mali (see the Bank's Study Report "Migrant Remittances, a Development Challenge, 2008). See also "Beyond Small Change - Making Migrant Remittances Count" edited by Donald F. Terry and Steven R. Wilson – IADB publication, 2005

<sup>11</sup> Interviews conducted among migrants underline the difficulties they have to use their parents as their representatives or their agents in acquiring houses or in investing in productive activities. Sometimes the money they sent just disappears or is misused.

individuals in the remittance process and that are efficient and cost effective. Transfer mechanisms should leverage financial intermediaries and networks with a global reach. This poses several challenges, given that many institutions do not have a wide international or local reach. Migrants who use informal transfer systems either remit funds to rural areas and regions that are underserved by formal financial institutions, or send remittances in kind (such as computers, household appliances, farm equipment, etc.), which money-transfer enterprises cannot do. Financial intermediaries require innovative alternatives to service remote receiving areas with the convenient, bundled services that non-bank money-transfer service providers are currently offering. New technology, like mobile phones, ATMs, and point of sale devices, offer the potential for a growth of remittances services<sup>12</sup>.

40. Low transaction costs are not the only determinant of success. Past work done by the IADB's Multilateral Investment Fund and the Study undertaken by the Bank showed that the proximity of the transfer agency and the speed of delivery are more important to many remitters than the costs of service. Family and friends' advice, advertising and brand loyalty can also be more important than costs when selecting a service provider. Habit also plays a large role: two-thirds of remitters had not comparison-shopped with other money-transfer services.

41. Given that habit and confidence in the transfer mechanism plays such a key role, even when the proper technology is available within a conducive regulatory environment, there is no guarantee that the remitters will use formal channels. Often, remitters are unfamiliar with and distrustful of banking institutions. While migrant workers will do as they please with their funds, it is hoped that improvements in available financial products will encourage them to utilize the formal financial sector.

42. The Bank will support innovations and pilot projects aimed at lowering the transfer costs and developing new products tailored to the needs of receivers and expectations of senders. It also intends to support the enlarging and strengthening of existing financial infrastructure, to increase the outreach, in particular in remote areas, and lower the costs of transfers.

### 3) Raise Awareness of the key stakeholders and the public at large:

43. The study conducted by the Bank in the four countries (see paras 22-27 above) indicates that both migrants and beneficiaries have limited knowledge of the remittances markets, the cost of services, and the existing financial products that may respond to their specific needs. Regulators and decision makers in governments often do not pay enough attention to the importance of remittances and are unaware of existing successful experiences in Africa and in other developing regions in the area of supervisory and regulatory reform. Financial operators in both sending and receiving countries also have limited knowledge of the financial opportunities remittances may offer in terms of enlarging their capital-base and outreach. It is therefore important to create a permanent platform for sharing information and knowledge among the key stakeholders on the costs, advantages and disadvantages of existing transfer channels; innovative products successfully introduced in the other countries and regions; and failures recorded in

---

<sup>12</sup> However, it is important not to distort the existing local market when designing new transfer mechanisms.

introducing new products. It is also important to raise awareness amongst not only the key operators, but also the indirect beneficiaries at both the national and local levels.

44. The Bank will support awareness programs and activities aiming at upgrading the knowledge of concerned stakeholders and sharing knowledge of opportunities and threats linked to the existing modes of transfer and the use of related resources.

#### 4) Develop Programs and Support Projects to Roll-out Innovations:

45. The surveys of financial operators conducted as part of past studies highlighted the segmented character of the markets and the low level of information available. Investigations among other key players also revealed the limited communication among all stakeholders. This has contributed to the monopolistic positions for some financial operators, in a reluctant attitude to cooperate with diasporas (e.g. many local authorities are concerned by the fact that migrants sometimes extend support to their communities and finance collective projects - such as small dams, classrooms or health facilities - without taking into account the budgeted programs or the implications of their support on the supply and demand for goods and services, price levels, and the recurrent costs they may generate), and a misunderstanding of the potential role of some local players (such as the MFIs). The complexity of the remittances system and its ramifications at the international, national and local levels require the design of integrated programs that will involve all concerned stakeholders, taking into account their respective interests, needs and expectations. In particular, rolling out innovations or introducing new financial products should obey to the following key principles: Participation and Ownership, Comprehensiveness and Selectivity; and Partnership and Subsidiarity.

### **Principles**

46. **Participation and Ownership:** It is important to work with migrants and recipients to understand their needs and expectations as well as with the other stakeholders involved in the remittances system to better understand their constraints and motivations. An in-depth knowledge and recognition of their respective motivations will lead to better policies, procedures and measures. It will also facilitate their implementation and make the whole system receptive for innovations. One of the overarching objectives of the Bank is to help stakeholders (governments, Diasporas, financial intermediaries, grassroots, local authorities, etc.) in RMCs to develop mechanisms and adopt programs of action that will strengthen the developmental role of remittances and channeling them in the most cost-effective ways to the end-beneficiaries.

47. **Comprehensive Approach and Priority Actions:** The issues surrounding migration and the channeling of funds home are numerous and very complex. It will be imperative to ensure that all stakeholders participate in the design of any program in order for it to have impact on the ground. There is a need to combine best practices derived from mainstream financial intermediaries with those of grassroots-oriented institutions, like credit unions, microfinance institutions and informal money transfer businesses (that would be integrated in the formal sector), with the goal of making remittance funds available for development and poverty reduction.

48. To ensure the success of the Initiative, it is also necessary to determine the prerequisites for the proper implementation of any program or project, such as: financial

sector reform, particularly relating to financial regulation and the regulatory environment<sup>13</sup>; corporate governance; and monitoring mechanisms. Using a pilot-project approach in testing the introduction of any innovative products or necessary structural changes is essential in order to better measure the constraints and threats that may result from the proposed changes.

49. **Partnership and Subsidiarity:** In all its programs and activities, the Bank will give priority to partnering with other operators, in particular with sister institutions, building on their knowledge, complementing their respective programs and projects and avoiding any competition. In particular, it aims at leveraging the Partnership for Making Finance Work for Africa, hosted at the Bank, to achieve such cooperation. The priority focus will be on areas and countries and zones not covered by the other partners or for which joint efforts are essential to achieve results.

## **VI. IMPLEMENTATION OF THE BANK'S INITIATIVE**

50. To ensure proper implementation of the Initiative, the Bank should mainstream the potential role of migrants and Diasporas in most of its operational programs by supporting innovative projects and activities on a pilot basis and raising awareness of staff in operations. It needs also to allocate to the above-listed activities specific financial, institutional and human resources.

### **Mainstreaming Remittances and Diasporas in the Bank's Operations**

51. In order to mainstream remittances and migrants' contribution to poverty alleviation and development efforts in targeted countries, the Bank needs to develop specific awareness programs and fine-tune several operational guidelines. This exercise will be conducted in two steps:

1. Staff sensitization through seminars and workshops highlighting the important role African Diasporas are already playing in concerned countries at local level and the importance of resources transferred for the national economies, in particular under the current international crisis context; and training sessions on the methodologies to be used to better reflect the importance of migrants in the design of programs and projects supported by the Bank; and
2. Revision of relevant operational policy documents and guidelines, such as Health and Education, Infrastructure, Microfinance, etc.

### **Addressing the financial resources requirements**

52. As a first step toward proper implementation of the Initiative, Management will propose to the Board, before the middle of April 2009, the creation of a trust fund, which will allow supplementing its limited resources. From 2009, the Bank intends to mainly use resources that can be mobilized through its partners to support projects initiated by migrants and Diasporas. It also intends to initiate and support the development of

---

<sup>13</sup> Studies have shown that the more regulations that are in place to restrict the free movement of money, the more common is the use of informal remittance channels.

innovative financial products; support pilot projects with high success potential but still considered too risky by financial institutions because of their innovative character; support the development of local infrastructure projects sponsored by migrants; and facilitate the sharing of knowledge and experiences among African countries. Thanks to the results of such efforts, the proposed fund will be able to create conditions for a better coordination and mobilization of resources and competencies, aiming at leveraging remittance's potential for development and poverty reduction in concerned African countries and regions. The creation of such trust fund was well received by several partners, which have requested its creation as soon as possible to support the urgently needed related activities. France has already committed Euro 6 million to the fund. Spain and IFAD have shown interest in joining the fund, which would make it multi-donor.

### **Institutional and Human Resources Requirements**

53. OIVP has the needed resources to ensure management of the Initiative and the related fund in the early phase of its implementation. However, the expected increase of activities funded under the Initiative will rapidly need more appropriate institutional arrangements to best manage the Initiative and its fund. Two issues need to be addressed, the creation of a dedicated group of staff to manage the Initiative and its location.

54. As it is designed, the Initiative is called to operate with a limited number of staff and should not result in any significant increase of resources, thanks to the redeployment of some staff and the use of consultants largely financed through the trust fund. The group managing the Initiative will have the following terms of reference: i) coordination of the Fund's activities and operations; ii) assistance to other operational units of the Bank in mainstreaming remittances-related activities in their lending and non-lending activities; iii) dissemination of lessons and knowledge from operations led by the other partners in the area of remittances; and, iv) promotion of coordination among partners, at the local and national levels, of programs and activities that involve migrants in their countries of origin.

55. There are various options for the location of the Initiative, based on the migration and development activities already undertaken by the Bank: i) in the Chief Economist Office (ECON); ii) in Making Finance Work for Africa, located in OSVP; iii) in OPSM; or iv) in OIVP Front Office. Given the operational nature of the above terms of reference, there would be a misfit with the knowledge focus of functions performed by ECON, and the first option would not be appropriate; ii) Making Finance Work for Africa could not be considered as the host for the Initiative as it is an autonomous partnership for the coordination of financial sector development activities in Africa, independent of the Bank and whose mandate does not envisage it becoming an implementing facility; iii) while OPSM will be the main arm in implementing the Initiative, its focus, on private sector oriented transactions and sizable operations, will be too narrow in comparison with areas that the Initiative will cover, in particular knowledge dissemination and support to local communities and households efforts in the area of small infrastructure, health and education; iv) OIVP Front Office could be considered as the most appropriate location for the Initiative.

56. OIVP Front Office is already coordinating the Bank's activities on remittances, and managing several other activities beyond its basic mandate of assistance to the Vice-President OIVP. The OIVP Front Office is hosting the ICT Focal Point, the PPP Task

Force and Support Team, the Lead Environmental Specialist and is expected to play a growing role in new Bank's activities related to guarantee operations, advisory services and remittances. As the Bank's volume of operations is growing, OIVP Front Office will not be able to continue housing all these functions. These functions have synergies and could be better harnessed if grouped and managed as a separate unit or department.

## VII. CONCLUSIONS

57. Migrants' remittances<sup>14</sup> are recognized as one of the major sources of financial flows for development. Available data and analysis indicate that remittance inflows have been critical in addressing, at the grassroots and household levels, the effects of natural disasters and economic crisis. They also played an important role in reducing poverty and in entrepreneurship development. There is a consensus that an increase of 10% of remittances flows contributes to decrease poverty rate by 1.5%.

58. The Bank has assigned a high priority to the promotion of remittance flows as a development tool and a link to the private sector. The overall objective of the ADB's intervention in the area of remittances is to maximize the developmental impact of remittances through reducing costs, channeling funds into productive use, promoting business opportunities and job creation at the grassroots level. The Bank aims to support knowledge and information, development of financial products and services for migrant workers and create incentives to channel funds into productive use in the countries of origin.

59. Throughout this process, the Bank will focus on promoting strategic alliances and networking and building capacity at the association and institutional levels, leveraging the presence of the Partnership for Making Finance Work for Africa, which is hosted by the Bank.

60. To ensure proper implementation of the Initiative, the Bank will mainstream the potential role of migrants and Diasporas in its operational programs and support innovative projects originated from the Diasporas.

61. In the light of the foregoing, the Management will submit for Board approval before the middle of April 2009 the creation of a Trust Fund for Migration and Development, which is expected to be a multi-donor fund, to support the Initiative and its urgently needed activities. Initial operations of the Initiative and the fund will be conducted by OIVP Front Office pending an overall assessment of the appropriate institutional arrangements and resources requirements, in view of the growing number and size of activities managed by the Front Office.

---

<sup>14</sup> Remittances refer to cross-boarder recurrent payments of relatively small amount from migrants workers to their relatives in their countries of origin.