



International Organization for Migration (IOM)
The UN Migration Agency

Remittances in ACP Countries: Key Challenges and Ways Forward

Informing Discussions of the ACP-EU
Dialogue on Migration and Development



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by Leon Isaacs
Brussels, March 2017



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About the ACP-EU Migration Action

The ACP-EU Migration Action (hereinafter “The Action”) is a programme supported by the Secretariat of the ACP Group of States and funded by the 10th European Development Fund (Intra-ACP Cooperation 2008-2013) of the European Commission for an amount of 10 million Euros. In June 2014, the International Organization for Migration (IOM) was entrusted with the implementation of this initiative.

The Action was developed in the framework of the African, Caribbean and Pacific (ACP) - European Union (EU) Dialogue on Migration and Development, launched after the 2010 Ouagadougou revision of the Cotonou Agreement (2005). The ACP-EU Dialogue on Migration and Development is an important process to discuss migration issues among the 79 ACP Member States (plus South Sudan) and the 28 EU Member States. In this context, the Action has been conceived as a tool to support this Dialogue and concretize its recommendations.

Specifically, the Action aims at implementing the joint ACP-EU recommendations on the topics of visas, remittances, readmission, trafficking in human beings and smuggling of migrants. The programme does that through the provision of on-demand technical assistance to ACP Governments and Regional Organizations (ROs) and funding for initiatives of Non State Actors (NSAs) active in ACP countries.



Acknowledgements

The publication of this report was made possible with the financial support of the European Union.

This report was written by Leon Isaacs, Developing Markets Associates (DMA). Leon is recognized as a global authority in the remittances and money transfer industry as well as a seasoned expert and business leader. As one of the co-founders of DMA, he has helped lead the company since 2007. He specializes on all elements in connection with remittances, payments, financial inclusion and diaspora investment.

The report also benefited from the comments and contributions made by Tauhid Pasha, Senior Specialist for Labour Mobility and Human Development, and from the Head of the IOM Publications Unit, Valerie Hagger, based at the Organization's headquarters in Geneva.

Lastly, the editors would like to specially thank the participants of the "Peer-to-Peer Exchange Meeting on Remittances" from Cabo Verde, Ethiopia, Ghana, Guyana, Kenya, Mali, OECS, Sierra Leone, Somalia, Togo, Zimbabwe and to the African Union, the African Institute of Remittances and the Delegation of the EU to Kenya. With their participation and interventions, they provided us with valuable knowledge for this report.

Abbreviations

AAAA	Addis Ababa Action Agenda
AIR	African Institute for Remittances
AML/CFT	Anti-Money Laundering/Counter Financing of Terrorism
ATM	Automated Teller Machine
BA	Baseline Assessment
BCEAO	La Banque Centrale des Etats de l'Afrique de l'Ouest ¹
BCV	Bank of Cabo Verde
BIM	Banque Internationale pour le Mali ²
BIS	Bank for International Settlements
CAR	Central African Republic
CBS	Central Bank of Somalia
CDD	Consumer Due Diligence
CFO	Commission on Filipinos Overseas
CNIC	Computerized National Identity Card
DIA	Diaspora Investment in Agriculture
DEEE	Departamento de Estudos Económicos e Estatísticas ³
DEVCO	Directorate-General for International Cooperation and Development
EAP	East Asia and Pacific
ECA	East and Central Africa
ERLB	Exchange Rate-Linked Bonds
ETC	Early Transition Countries
EVD	Ebola Viral Disease
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FFR	Financing Facility for Remittances
FRS	Federal Republic of Somalia
GPF	Global Policy Forum
HTA	Hometown Associations
IADB	Inter-American Development Bank
ICT	Information and Communication Technologies
IFAD	The International Fund for Agricultural Development
IFC	International Finance Corporation

1 The Central Bank of the West African States.

2 International Bank for Mali.

3 Department of Economic and Statistics Studies.

INSEED	National Institute of Statistics and Economic Studies and Demographics
IOM	International Organization for Migration
KYC	Know Your Customer
LAC	Latin American and Caribbean
M&E	Monitoring and Evaluation
MCAS	Matrícula Consular de Alta Seguridad ⁴
MFI	Micro finance institution
MIF⁵	Multilateral Investment Fund
ML/TF	Money Laundering/Terrorist Financing
MM	Mobile Money
MMEPIP	Ministry of Macro-Economic Planning and Investment Promotion
MNO	Mobile Network Operator
MoFA	Ministry of Foreign Affairs (Republic of Guyana)
MPI	Migration Policy Institute
MSB	Money Services Business
MTO	Money Transfer Operator
NBFI	Non-Bank Financial Institution
NGO	Non-Governmental Organization
NICOP	National Identity Card for Overseas Pakistanis
NSA	Non-State Actors
ODA	Overseas Development Assistance
OECS	Organisation of Eastern Caribbean States
OPF	Overseas Pakistanis Foundation
P2P	Peer-to-Peer
POC	Pakistan Overseas Card
POS	Point of Sale
PRI	Pakistan Remittance Initiative
RAP	Rapid Assessment Procedures
RSP	Remittance Service Provider
SMP	SendMoneyPacific
SSA	Sub-Saharan Africa
TA	Technical Assistance

4 Consular Identification Card.

5 FOMIN in Spanish.

Executive summary

Formal remittances to developing countries were estimated to have exceeded USD 601 billion in 2015,⁶ an amount roughly three times larger than overseas development assistance (ODA). They provide a lifeline for some of the world's most vulnerable and low income households, both by contributing to basic needs such as food, health care, education and housing, and by helping to manage external shocks and fluctuations in income.

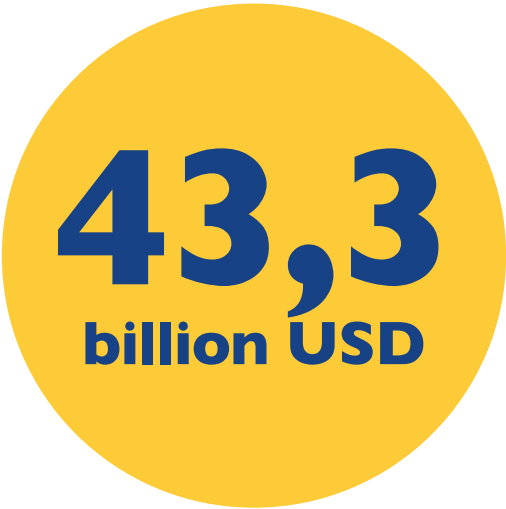
Beyond this, remittances provide a vital source of foreign exchange for governments and, by some accounts, now form the largest source of external financing in developing countries (excluding China).⁷ For some countries they can account for as much as a third of GDP.⁸ Reports also suggest that they are one of the least volatile sources of external finance and have proved to be more stable than private debt and portfolio equity flows.⁹ Even when compared to less volatile components of capital flows such as Foreign Direct Investment (FDI) and official aid flows, remittances have been found to fluctuate less over time.¹⁰

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- 6 World Bank, *Migration and Remittance Factbook* (Washington, 2016). Available from <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1199807908806/4549025-1450455807487/Factbookpart1.pdf>.
 - 7 World Bank, *Migration and Remittances: Recent Developments and Outlook. Migration and Development Brief*, 24 (Washington, 2015). Available from <https://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationandDevelopmentBrief24.pdf>.
 - 8 BIS and World Bank, *General Principles for International Remittance Services* (Washington, 2007). Available from www.bis.org/cpmi/publ/d76.pdf.
 - 9 World Bank, *Migration and Remittances: Recent Developments and Outlook. Migration and Development Brief*, 24 (Washington, 2015). Available from <https://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationandDevelopmentBrief24.pdf>.
 - 10 See, for example, Maimbo, S. and D. Ratha, *Remittances: Development Impact and Future Prospects*, (Washington, 2005) in which it is noted that remittances to developing countries continued to rise steadily in 1998–2001, as private capital flows declined due to the Asian financial crisis. FDI and official aid flows also declined during 2000–2003, while remittances continued to rise. See also, World Bank, *Migration and Remittances: Recent Developments and Outlook. Migration and Development Brief*, 24 (Washington, 2016). Available from <https://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationandDevelopmentBrief24.pdf>.

Remittances in ACP States

In 2015, a total of USD 43.3 billion reached ACP States for which data is available, according to World Bank development indicators.¹¹ Of these, the largest remittance receiving countries by value of remittances received were Nigeria, Dominican Republic and Ghana.

Several ACP States also have some of the highest rates of dependency on remittances globally, as measured by the ratio of remittances to GDP. These include Haiti (24.73%), Samoa (20.2%), Jamaica (16.86%),¹² Zimbabwe (13.8%) and Cabo Verde (12.32%).¹³



43,3
billion USD

-
- 11 Countries where data was not available: Bahamas, Central African Republic, Chad, Republic of Congo, Cuba, Gabon, Mauritania, South Sudan, Zimbabwe.
- 12 World Bank, *Development Indicators. Personal Remittances, Received (% of GDP)*. Available from <http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT>.
- 13 The Global Average is 4.20 per cent.

Background to the study

This report was commissioned by the ACP-EU Migration Action. Launched in January 2015, the ACP-EU Migration Action is geared towards supporting activities that promote the 2012 and 2015 recommendations of the ACP-EU Dialogue on Migration and Development on visas, remittances, readmission, trafficking in human beings and smuggling of migrants. Specifically on the topic of remittances, these recommendations include:

- **Improving the legislative and regulatory framework of sending and receiving countries, particularly in order to promote competition on the financial market;**
- **Reinforcing the capacity of the relevant authorities in the area of collection of reliable data;**
- **Making available to the relevant actors as well as to the general public data on transfer costs in order to improve their transparency and comparability;**
- **Improving knowledge on North–South remittances;**
- **Broadening the typology of formal channels that can be used to send and receive remittances, including postal networks and other relevant operators. In this context, the use of new technologies such as mobile phones should be further promoted;**
- **Assessing gaps and constraints of the current systems in order to ease transfers, including through facilitating for migrants, the opening of bank accounts in both source and receiving countries (linked bank accounts);**
- **Pursuing the efforts to significantly decrease the costs of transferring remittances, both from the EU to ACP countries and between ACP countries;**
- **Promoting access to financial services, with particular attention on rural areas.**

Objective of the report

The report aims to provide a thematic overview and analysis of the work of the Action in addressing the 2012 recommendations to date. Its objective is to make recommendations and suggest actions that stakeholders can take to introduce real change in the international remittance markets.

To achieve this, the report aims to:

- **Include a review of the current state of affairs, research and policy approaches to remittances in general, with a focus on the current subtopics covered at The Action's Peer-to-Peer (P2P) Exchange Meeting held in Nairobi, Kenya in October 2016 (see www.acpeumigrationaction.iom.int/p2premittances);**
- **Review and analyse existing information sources, discussions, initiatives and trends on remittances in the context of the ACP-EU cooperation;**
- **Review and analyse the outcomes of the ACP-EU Dialogue on Migration and Development as they relate to remittances;**
- **Analyse and illustrate the activities on remittances supported by the Action;**
- **Provide an analysis on how the Action activities on remittances are linked to the ACP-EU Dialogue on Migration and Development and the relevance they have for ACP countries;**
- **Include and analyse the information gathered at the P2P Exchange Meeting;**
- **Provide a fiche for each country where the Action has provided assistance in the area of remittances;**
- **Identify innovative initiatives or specific challenges that can inform future discussions on remittances in the framework of the ACP-EU Dialogue on Migration and Development.**

Methodology

This report has used a variety of techniques to assemble its contents. These have included:

Desk-based research. A range of previously published reference sources have been accessed and a full bibliography is attached in Appendix 1. Sources have included baseline assessments (BAs) on remittances as well as the technical assistance (TA) interventions carried out by the Action to date. These materials are fully or partially available at the website of the ACP-EU Migration Action (<http://acpeumigrationaction.iom.int/>). Also included are major and recent publications on remittances by the World Bank, IFAD, IOM and other stakeholders, particularly in relation to the work of the Action.

Information and analysis arising from stakeholders' meetings. A significant part of this report is based around the information and analysis which arose from both the discussions during the seminar on remittances of the ACP-EU Dialogue on Migration and Development (Brussels, 13 July 2016) and the P2P Exchange Meeting on Remittances that was held in Nairobi, Kenya between 17–19 October 2016.

Structure of the report

Sections 1, 2 and 3 will aim to introduce the topic of remittances and development, highlighting the importance of this report as well as placing it in a global context. This will be done by providing a high-level introduction to key trends in remittances globally, as well as the connection between remittance and development and current global policy agenda and initiatives. It will also seek to place the ACP countries within this context.

In section 4, the current key obstacles to achieving the recommendations of the ACP-EU in ACP countries will be outlined. These obstacles will be analysed in six broad categories. For each category, a brief outline of the challenges, followed by the main structural, regulatory and demand-side obstacles will be highlighted and examined, with particular relation to ACP-EU States.

Section 5 will take the key obstacles identified as a basis to examine and critically analyse new initiatives and propose solutions which aim to improve the flow of remittances and facilitate productive investment from diaspora. This will be broken down into nine broad areas of action and within each area the key actions and/or initiatives which have been undertaken are highlighted and analysed. These will include ACP-EU initiatives as well as practical examples of best practice globally. Lessons learnt will also be highlighted and examined throughout.

The report will conclude by offering its own recommendations – both in the actions which could be taken within the framework of ongoing ACP-EU initiatives, and for potential future initiatives and actions which could be taken in ACP States. This will include suggestions as to how recommendations should be prioritized based on potential impact (as related to the achieving the ACP-EU recommendations), time frame and resources required.

Main findings

Challenges

1. HIGH REMITTANCE COSTS	2. ACCESS TO FORMAL REMITTANCE SERVICES IN BOTH THE SEND AND RECEIVE MARKETS
Overall, the cost to send USD 200 to ACP countries averages at 9.59 % – almost double the G8’s 5x5 goal, and significantly higher than the global average of 7.40 per cent. The <i>World Bank Migration and Remittances Factbook 2016</i> (World Bank, 2016) identified sub-Saharan Africa and the Pacific Island countries as the most expensive regions to send money to in the world. These costs are particularly of note given the often-low incomes of migrant workers and the comparatively small amounts sent (typically no more than a few hundred USD or its equivalent at a time).	Where irregular migration is high, many migrants are automatically excluded from accessing remittance channels in the send country, due to not having formal identification to meet know your customer (KYC) requirements for cross-border transfers. For many migrants from ACP countries, this is one of the primary barriers to accessing formal remittance services in certain corridors. This issue is particularly acute in the Horn and East Africa where irregular migration from Djibouti, Ethiopia, Eritrea, Somalia, and Sudan to the Middle East and South Africa is prevalent. In terms of receiving remittances, many ACP countries face a challenge with access to domestic payments infrastructure, particularly in isolated areas. The infrastructure required to support remittance services can include bank branches, post offices, microfinance institutions (MFIs), mobile money agents and other non-financial infrastructure, depending on the regulation in the country.

3. PREVALENCE OF INFORMALITY

Estimates of the prevalence of the informal sector in remittances vary widely, ranging from 35 per cent to 250 per cent of total remittances. Estimates from ACP countries' baseline assessments and technical assessments suggest that the value of informal flows is at least as large as formal ones.

There are various problems associated with countries having such a large flow of informal remittances. These include having no way to track and record flows to prevent money laundering and terrorist financing, consumers having no formal protection of their funds, a reduction in the access to foreign exchange in the private and public sector, as well as a reduction in the effectiveness of the formal banking sector, and a reduction in the ability to use remittances for financial inclusion.

4. LIMITATIONS IN MAXIMIZING THE PRODUCTIVE POTENTIAL OF REMITTANCES

In several ACP countries, household surveys and studies have shown that the majority of remittances are low value and sent for daily expense and consumption purposes, rather than investment. Even where part of a remittance transfer could be saved and/or invested, lack of access to an account at a financial institution severely limits the options for remittance-receiving households, even where saving and investment might be possible. On average, only 22.3 % of adults (aged 15+) hold an account at a financial institution in low income countries, and several ACP countries have some of the lowest rates of financial inclusion in the world. These include Niger (6.7%), Guinea (7%), Burundi (7%), Madagascar (8.6%), and Cameroon (12%). This limited access to formal financial services in ACP countries is a significant barrier for those wishing to save their remittances, as well as a barrier to development more broadly. Without access to financial services, for example, savings cannot accrue interest, they cannot be lent out to be reinvested in the local economy, and no individual credit history can be built.^a

a World Bank, The Global Findex Database (2014).
Available from <http://worldbank.org/en/programs/globalfindex>

5. COORDINATION BETWEEN STAKEHOLDERS

Coordination between the many different stakeholders in terms of a harmonized approach to managing remittances can be a significant challenge, on a national, regional and international level. Responses to the challenges require a coordinated approach across multiple bodies, including foreign affairs ministries, central banks (and various departments within them), regulatory bodies, the private sector, non-governmental institutions, planning agencies and statistics agencies.

6. LACK OF ACCURATE AND MEANINGFUL DATA

There are several challenges with gaining accurate and meaningful data on remittances in ACP States and globally. These include limitations in the methodologies to calculate the size of remittance flows, lack of coordination or unwillingness to share data between entities, and challenges with measuring the size of informal flows. Without accurate data it is difficult to develop meaningful policies.

Recommendations

The report developed 9 key recommendations to address the challenges facing remittances in ACP States. Each recommendation includes practical suggestions for how the overall recommendation might be achieved, as well as outlines of initiatives and examples of best practice globally.

RECOMMENDATION	KEY CHALLENGES	RECOMMENDED ACTIONS
1. Create an enabling regulatory framework for cross-border payments	- High remittance costs; - Lack of access in the receive market; - Prevalence of informality; - Limitations in maximizing productive potential for remittances.	1 Adopt a proportional approach to regulating remittances, recognizing the relative risks involved. This requires understanding the challenges involved with cross-border transfers while also recognizing the importance of facilitating productive remittance flows through formal channels; 2 Take action on Exclusivity Clauses; 3 Introduce letters of no objection and other proportionate responses to licensing new technology cross-border; 4 Analyse the potential of platform and cross-platform level interoperability cross-border.
2. Improve domestic payments infrastructure and access, particularly in relation to new technologies	- High Remittance Costs; - Access to formal remittance services in both the send and receive markets; - Prevalence of Informality; - Limitations in maximizing productive potential for remittances.	1 Create an enabling regulatory framework for new technology at the domestic level, including adopting a proportionate approach to licensing and a risk-based approach to KYC for new technologies; 2 Support nationwide awareness/education campaigns; 3 Support use-cases such as MFI payments and government payments paid out onto mobile phones; 4 Increase reliable telephone network coverage in isolated areas; 5 Support of digital acceptance terminals, particularly in isolated areas; 6 Support interoperability in the domestic payments systems where possible; 7 Support access to “bricks and mortar” financial services in rural areas.
3. Improve data collection on remittances and payments systems	- High remittance costs; - Lack of access in the receive market; - Prevalence of informality; - Limitations in maximizing productive potential for remittances; - Lack of accurate data.	1 Promote consistent methodologies across jurisdictions; 2 Create and promote opportunities to share data; 3 Create opportunities to share best practice in data collection, particularly methods to measure informal flows; 4 Map access points so that a comprehensive picture is obtained on where funds can be collected; 5 Utilize the power of social media.

RECOMMENDATION	KEY CHALLENGES	RECOMMENDED ACTIONS
4. Increase transparency	- High remittance costs; - Lack of access in the receive market; - Prevalence of informality; - Limitations in maximizing the productive potential of remittances; - Lack of accurate data.	1 Communication/awareness generating tools, e.g. leaflets, community campaigns; 2 Introduce Disclosure of Fees and Enhance regulatory framework for transparency; 3 Support the development of Price Comparison Websites and develop new methodologies and partnerships to collate real-time data in remittance corridors. Introduce Financial literacy apps.
5. Introduce incentives or lowering costs of remittances	- High remittance costs.	1 A short-term solution for encouraging the switch to formal remittances could be to follow the Pakistan Remittances Initiative (PRI)^a lead in offering price incentives to lower the cost of remittances.
6. Improve irregular migrants access to formal remittances	- Access to formal remittance services in both the send and receive markets; - Prevalence of Informality; - Limitations in maximizing productive potential for remittances.	1 Improve Irregular Migrants Access to Formal Remittances by Addressing the Issue of identification; 2 Promote Formal Routes of Migration.
7. Use remittances as a tool for financial inclusion	- Limitations in maximizing productive potential for remittances.	1 Facilitate remittance investment opportunities through promoting financial inclusion and duly regulated products and services for remittance senders and receivers.
8. Encourage informal into formal and engage the informal sector	- Prevalence of Informality; - Limitations in maximizing productive potential for remittances.	1 Consider regulatory approaches to bring informal operators into the formal sector; 2 Strengthen and clarify rules in legal and judicial frameworks; 3 Outreach diaspora programmes – diplomatic missions to reach diaspora in the main send countries is an important activity in moving flows from informal to formal sector.
9. Improve coordination among stakeholders	- Across all barriers.	1 Raise awareness of the added value of migrants' activities in terms of investment; 2 Enhance collaboration and build connections.

^a See Pakistan Remittance Initiative (PRI) for more information. Available from www.pri.gov.pk/

I

INTRODUCTION

Introduction

Formal remittances to developing countries were estimated to have exceeded USD 601 billion in 2015,¹⁴ an amount roughly three times larger than overseas development assistance (ODA). They provide a lifeline for some of the world's most vulnerable and low income households, both by contributing to basic needs such as food, health care, education and housing, and by helping to manage external shocks and fluctuations in income.

Beyond this, remittances provide a vital source of foreign exchange for governments and, by some accounts, now form the largest source of external financing in developing countries (excluding China).¹⁵ For some countries they can account for as much as a third of GDP.¹⁶ Reports also suggest that they are one of the least volatile sources of external finance, and have proved to be more stable than private debt and portfolio equity flows.¹⁷ Even when compared to less volatile components of capital flows such as Foreign Direct Investment (FDI) and official aid flows, remittances have been found to fluctuate less over time.¹⁸

14 World Bank, *Migration and Remittance Factbook* (Washington, 2016). Available from <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1199807908806/4549025-1450455807487/Factbookpart1.pdf>.

15 World Bank, *Migration and Remittances: Recent Developments and Outlook. Migration and Development Brief, 24* (Washington, 2015). Available from <https://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationandDevelopmentBrief24.pdf>.

16 BIS and World Bank *General Principles for International Remittance Services* (2007). Available from www.bis.org/cpmi/publ/d76.pdf.

17 See footnote 19.

18 See, for example, Maimbo and Ratha (2005), *Remittances Development Impact and Future Prospects*, in which it is noted that remittances to developing countries continued to rise steadily in 1998–2001, as private capital flows declined due to the Asian financial crisis, and even FDI and official aid flows declined during 2000–2003, while remittances continued to rise. See also World Bank, *Migration and Remittances: Recent Developments and Outlook. Migration and Development Brief, 24* (Washington, 2015). Available from <https://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationandDevelopmentBrief24.pdf>.

Despite the vital importance of these flows, both at the household and national levels, several challenges still exist with the sending and receiving of remittances. These include high costs (particularly in relation to the low incomes of migrant workers and the small amounts sent), difficulties in accessing formal remittance services in both the send and receive markets, and the prevalence of informal flows, which are estimated to be upwards of 70 per cent in some markets.¹⁹ Leveraging diaspora remittances for financial inclusion has also become an increasing focus of policy, with several challenges associated with this.

In light of this, the ACP-EU Migration Action, an initiative of the ACP Secretariat and the European Union (EU), implemented by the IOM, seeks to offer technical assistance to ACP countries, hence addressing the challenges currently present in facilitating productive remittances, as well as creating dialogue and coordination between key stakeholders and policymakers. This report serves as a thematic analysis of the work of the Action to date, placing it within the context of global discussions and debates surrounding remittances.

Applicants for technical assistance

Technical assistance offered in the framework of the Action is available for all 79 ACP countries (80 with South Sudan). The regional distribution of beneficiary countries is provided in table 1.

19 International Organization for Migration, *Baseline Assessment, Sierra Leone* (2016).

Table 1:

Regional distribution of countries in which technical assistance is available through the Action

WEST AND CENTRAL AFRICA	EAST AND HORN OF AFRICA
Benin	Burundi
Burkina Faso	Djibouti
Cabo Verde	Eritrea
Central African Republic	Ethiopia
Chad	Rwanda
Congo	Somalia
Gabon	South Sudan
Gambia	Uganda
Ghana	
Guinea	
Guinea-Bissau	
Mali	
Mauritania	
Niger	
Nigeria	
Sao Tome and Principe	
Senegal	
Sierra Leone	
Togo	

SOUTHERN AFRICA	CARIBBEAN	PACIFIC
Angola	Antigua and Barbuda	Cook Islands
Botswana	Bahamas	Fiji
Comoros	Barbados	Kiribati
Congo, Democratic Republic of the	Belize	Marshall Islands
Lesotho	Cuba	Micronesia, Federated States
Madagascar	Dominica	Nauru
Malawi	Dominican Republic	Niue
Mauritius	Grenada	Palau
Mozambique	Guyana	Papua New Guinea
Namibia	Haiti	Samoa
Seychelles	Jamaica	Solomon Islands
South Africa	Saint Kitts and Nevis	Timor-Leste
Swaziland	Saint Lucia	Tonga
Zambia	Saint Vincent and the Grenadines	Tuvalu
Zimbabwe	Suriname	Vanuatu
	Trinidad and Tobago	

Progress of ACP - EU Migration Action to date

Table 2:

Overview of the ACP-EU requests for technical assistance in the field of remittances to date (November 2016)

COUNTRY	DATE OF SUBMISSION	REQUESTING ENTITY
Cabo Verde	06/01/2016	Ministerio das Comunidades Governo da Republica de Cabo Verde
Ethiopia	24/11/2015	Directorate General for Diaspora Engagement Affairs, Ministry of Foreign Affairs, Federal Democratic Republic of Ethiopia
Guyana	11/09/2015	Diaspora Unit, Ministry of Foreign Affairs, Co-operative Republic of Guyana
Kenya	15/09/2015	Directorate of Diaspora and Consular Affairs, Ministry of International Trade and Foreign Affairs, Republic of Kenya
Mali	30/07/2015	Technical Council of the Ministry of Foreign Malians, Government of the Republic of Mali
Organisation of Eastern Caribbean States (OECS)	12/05/2015	Organisation of Eastern Caribbean States (OECS)
Sierra Leone	10/11/2015	Office of Diaspora Affairs, Office of the President, Republic of Sierra Leone
Somalia	15/04/2015	Central Bank of Somalia, Federal Government of Somalia
Togo	15/01/2016	Ministry of Economy, Finance and Development Planning of the Togolese Republic
Tonga	15/01/2016	Ministry of Foreign Affairs and Trade, Kingdom of Tonga
Zimbabwe	10/11/2015	Ministry of Macro-Economic Planning and Investment Promotion, Republic of Zimbabwe

OBJECTIVES OF TA

To develop a study with recommendations as to how to tackle the topic of remittances in a lower-cost, highly effective manner to the benefit of Cabo-Verdeans and the Government alike.

To support the Ethiopian Ministry of Foreign Affairs and related stakeholders to identify barriers adversely affecting the Ethiopian Diaspora from using formal remittances transfer mechanisms.

To provide the Guyanese Ministry of Foreign Affairs with a comprehensive analysis on the general status of the national money transfer sector with emphasis on how the cost of remittances can be reduced.

To provide the Kenyan Diaspora with information about affordable remittance channels, remittance saving and Investments opportunities through digital means.

To evaluate the mechanisms put in place by the Malian government to reduce the costs of remittances and encourage the diaspora to invest in productive projects.

To help the OECS in the development of an adequate framework for the management of remittances and improvement of opportunities and benefits resulting from the diaspora engagement.

To strengthen the institutional capacity of the Office of Diaspora Affairs and other relevant ministries as to leverage Sierra Leone's Diaspora remittances in productive investments.

To support the Central Bank of Somalia (CBS) in its development of a mobile money licensing and regulatory framework.

To assist the Government of Togo to develop a database on remittances that will be one of the Government's tools for future analysis and decision-making.

To help Tonga to strengthen its links and engagement with its diaspora, and hence increase remittances and improve the predictability and sustainability of remittance flows to help Tonga achieve its national development goals.

To support the Government in developing the Diaspora Policy to ensure increased remittances flow through the reduction of the cost of sending remittances and channelling remittances into productive investments.

2

OVERVIEW OF REMITTANCES

Remittances globally

In 2015, worldwide remittance flows are estimated to have exceeded USD 601 billion.²⁰ Of that amount, developing countries are estimated to receive about USD 441 billion,²¹ nearly three times the amount of official development assistance. The true size of remittances, including unrecorded flows through formal and informal channels, is believed to be significantly larger.

Global remittance values have been growing continually since the 1970s (see figure 1), with a brief fall in 2008 due to the financial crisis.²²

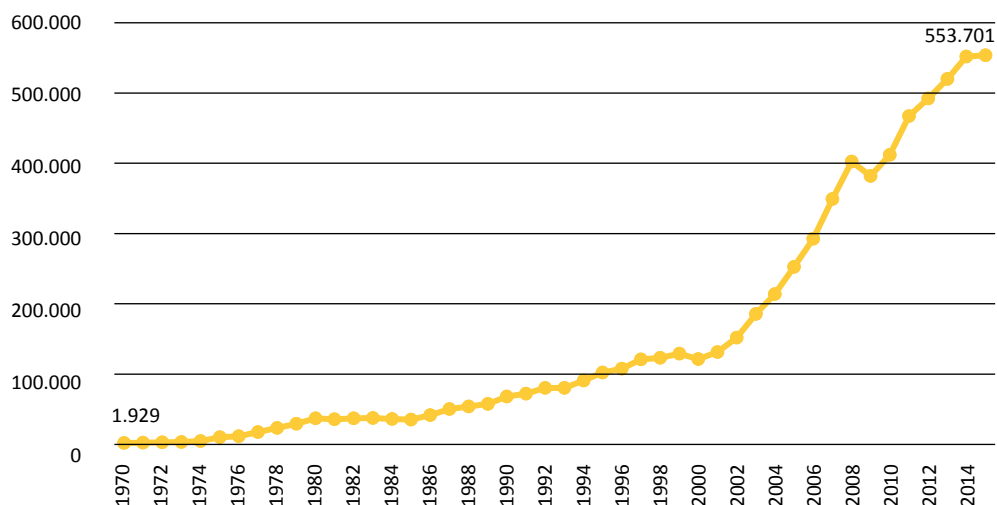
In 2015, the top recipient countries of recorded remittances were India, China, the Philippines and Mexico. As a share of GDP, however, smaller countries such as Tajikistan (42%), the Kyrgyz Republic (30%), Nepal (29%), Tonga (28%), and the Republic of Moldova (26%) were the largest recipients.

20 World Bank, Migration and Remittance Factbook (Washington, 2016). Available from <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1199807908806/4549025-1450455807487/Factbookpart1.pdf>.

21 Ibid.

22 World Bank, Remittances to Developing Countries Edge Up Slightly in 2015 (2016). Available from www.worldbank.org/en/news/press-release/2016/04/13/remittances-to-developing-countries-edge-up-slightly-in-2015.

Figure 1:
Value of personnel remittances received globally, USD million



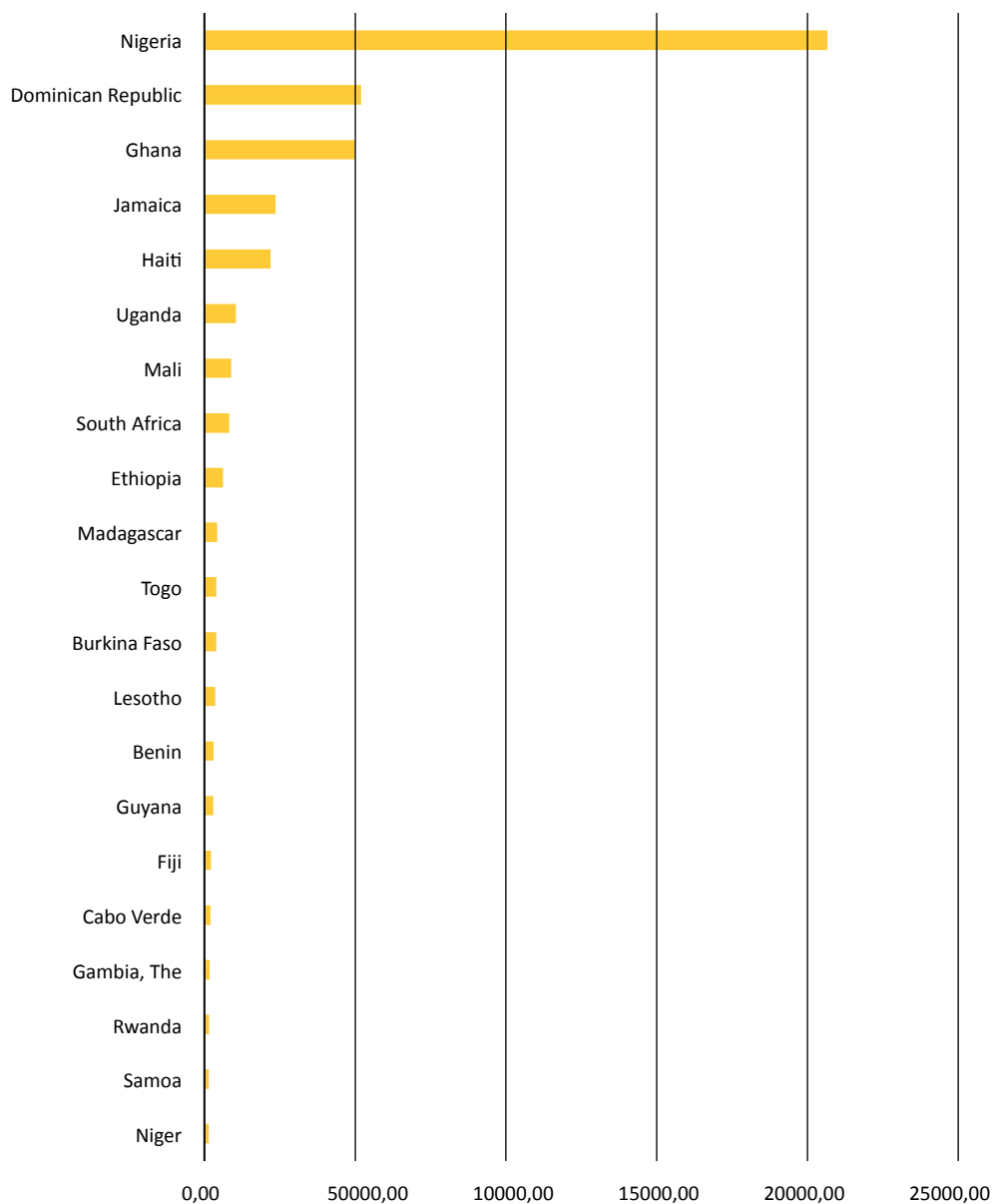
Source: World Bank, Development Indicators. Available from <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> (accessed November 2016).

Remittances in the ACP States

In 2015, a total of USD 43.3 billion reached ACP States for which data is available, according to World Bank development indicators²³ – approximately 8 per cent of the global total. Of these the largest remittance-receiving countries by value of remittances received were Nigeria, Dominican Republic and Ghana (see figure 2). Remittances to ACP countries have also been increasing steadily since 2000 (see figure 3), although with a fall between 2008 and 2009.

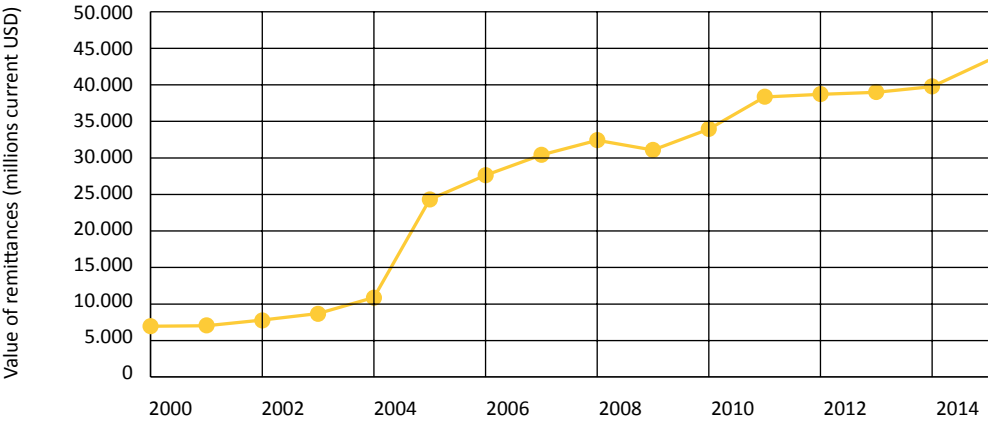
23 Countries where data was not available: Bahamas, Central African Republic, Chad, Congo, Cuba, Gabon, Mauritania, South Sudan, Zimbabwe.

Figure 2:
Value of remittances received, 2015, USD million in ACP States



Source: World Bank, *Development Indicators*. Available from <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> (accessed October 2016).

Figure 3:
Value of personal remittances received (USD million)
in ACP countries over time



Source: World Bank, *Development Indicators*. Available from <http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT> (accessed November 2016).

Note: ACP countries defined as those in table 1, excluding those where data was not available.

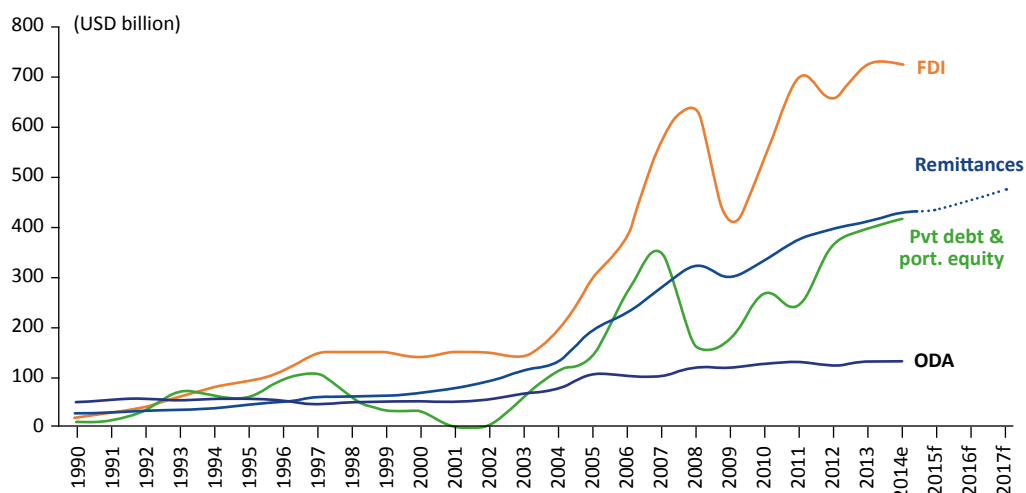
Remittances and development

The clear links between development and remittances have frequently been identified.

Perhaps the most important benefit remittances have for developing countries is in the sheer size of their monetary value. For smaller countries, such as Tajikistan, the Kyrgyzstan, Lesotho, and Nepal, remittances constitute as much as 20 to 45 per cent of national GDP, making them a vital source of income for their economies, as well as a crucial source of foreign exchange. In many other developing countries, remittances consistently outstrip official development assistance, and are often considered more stable in the face of external shocks. Remittances are also considered more stable than other forms of external finance such as FDI flows, private debt and equity (see figure 4).²⁴

24 Singh, S. *The Remittance Effect: Do Remittances Help Development?* (2015). Available from www.inquiriesjournal.com/articles/983/the-remittance-effect-do-remittances-help-development.

Figure 4:
Remittance flows compared to FDI, ODA, private debt and equity



Source: World Bank, *Migration and Remittances: Recent Developments and Outlook* (2015).

On a macrolevel, remittances can also increase the credit rating of recipient countries, allowing countries to take on more debt and fund productive investment. For example, the 2009 World Bank-IMF Debt Sustainability Framework is allowing recipient countries to carry higher levels of debt when the ratio of remittances is higher than 10 per cent of their domestic income and 20 per cent of exported goods and services. Studies have also found remittances to have a positive impact both on bank deposits and bank credit to the private sector in remittance-receiving countries.²⁵ It is important to note, however, that both these impacts require remittances to be sent through formal channels.

On a microlevel, remittances can provide a lifeline for some of the world's most vulnerable and low income households, both by contributing to basic needs such as food, health care, education and housing, and by helping to manage external shocks and fluctuations in income. They can also play an important role in facilitating financial inclusion, as will be discussed later in the report.

25 Cooray, A.V. *Migrant Remittances, Financial Sector Development and the Government Ownership of Banks* (2010). Available from <http://ro.uow.edu.au/cgi/viewcontent.cgi?article=2218&context=commpapers>.

However, it is important to note that reports and studies have also found that there can be a negative link between development and remittances. These are frequently highlighted as concerns that remittances will lead to currency appreciation,²⁶ as well as exacerbating regional inequalities through distorting local income levels.²⁷

At the mesolevel, there are also concerns over the effect of remittances on inflation and local prices, particularly for land, property and construction.²⁸ Finally, studies have also found that at a microlevel remittances may increase dependency and undermine motivations to work in the remittance-receiving country, curtailing the local workforce as well as placing ongoing demand on the remittance sender, reducing their living standards in the send country.²⁹

26 There is ongoing debate concerning the robustness of evidence that remittances cause currency appreciation, including arguments that remittances also contribute to currency depreciation, and that the effects, both of appreciation and depreciation, vary from region to region. For a robust analysis of workers' remittances and effects on exchange rates, see Barajas et al., *Workers' Remittances and the Equilibrium Real Exchange Rate: Theory and Evidence* (2010). Available from www.imf.org/external/pubs/ft/wp/2010/wp10287.pdf.

27 See, for example, Anyanwu, J.C. *International Remittances and Income Inequality in Africa* (2011), which found that a 10 per cent increase in official international remittances as a percentage of GDP leads, on average, to a 0.013 per cent increase in income inequality in Africa. Available from www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/WORKING%20135%20International%20Remittances%20and%20Income%20Inequality%20in%20Africa-August2011%20.pdf. See also, Adams et al., *The Impact of Remittances on Poverty and Inequality in Ghana* (2008). Note that studies have argued that over time this impact is reduced as a result of the diffusion of access to migration – see, for example, Taylor et al., *Remittances, Inequality and Poverty: Evidence from Rural Mexico* (2009).

28 Yaseen, H.S. *The Positive and Negative Impact of Remittances on Economic Growth in MENA Countries* (2012). Available from www.jimsjournal.org/2%20Hadeel%20S.%20Yaseen.pdf.

29 See, for example, Jadotte, *International Migration, Remittances and Labour Supply: The Case of the Republic of Haiti* (2009). Available from www.wider.unu.edu/sites/default/files/rp2009-28.pdf. Again, it should be noted that there is much debate surrounding this argument, particularly regarding the variation which might be seen across regions, gender and income levels. See, for example, Amuedo-Dorantes and Pozo, *Migration, Remittances and Male and Female Employment Patterns* (2006).

ACP States, remittances and development

While, on average, ACP States have a similar dependency ratio compared to the global average,³⁰ there exist substantial variations within ACP States, including countries with some of the highest remittance dependency ratios in the world. As the baseline assessment of Somalia found: remittances to Somalia from the diaspora comprise 50 per cent of Somalia's gross national income annually.³¹

In Zimbabwe, remittances comprised of 13.8 per cent of GDP (coming from 16.7 per cent in 2011),³² and in Cabo Verde this figure was 12.32 per cent in 2015.³³ Other ACP States not yet included in the baseline assessments and technical assistance to date also face notable high remittance dependency ratios, including Haiti (24.73%), Samoa (20.2%) and Jamaica (16.86%).³⁴

30 The value of remittances to GDP in 2015 of ACP States was 4.52 per cent compared to a global average of 4.20 per cent. *Source:* World Bank, Development Indicators, 2015. Available from <http://data.worldbank.org/products/wdi>

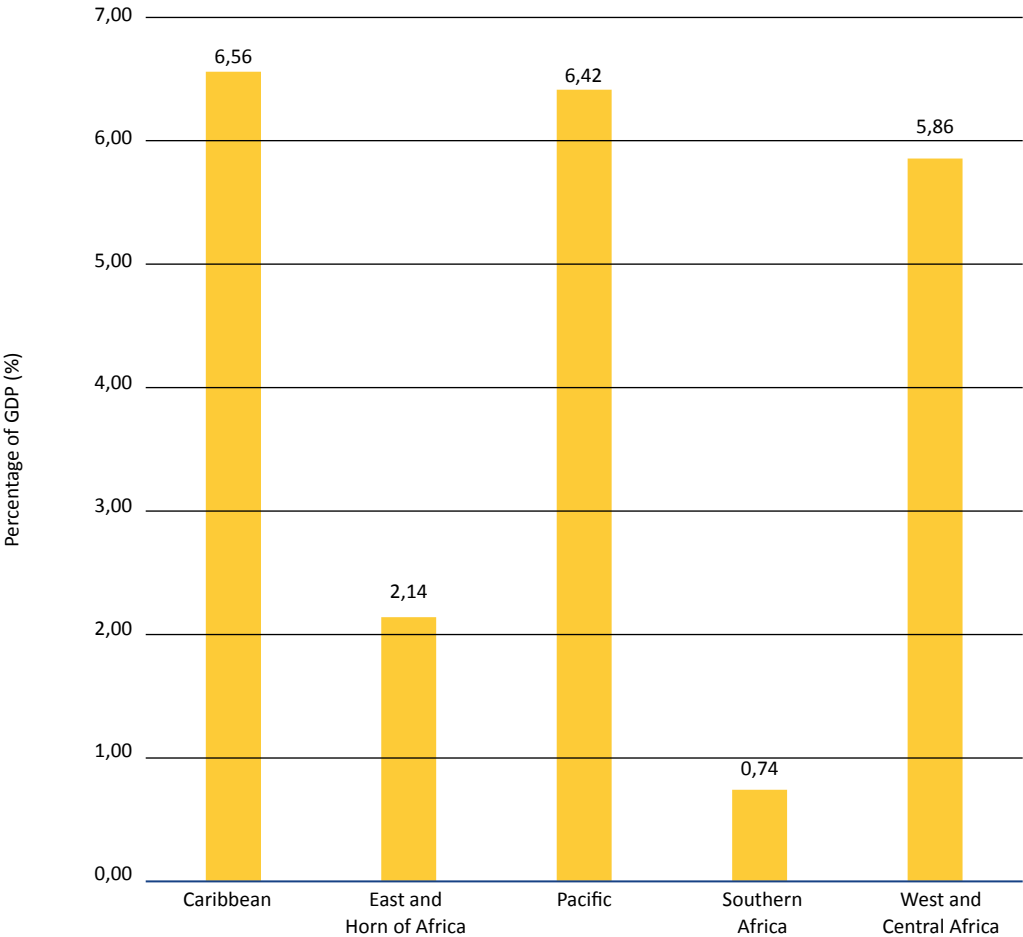
31 International Organization for Migration, Baseline Assessment, Somalia (2015).

32 Figures from 2015 and 2014 not available. *Source:* International Organization for Migration, Baseline Assessment, Zimbabwe (2015).

33 World Bank, Development Indicators. Personal Remittances, Received (% of GDP). Available from <http://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS> (accessed November 2016).

34 World Bank, Development Indicators. Personal Remittances, Received (% of GDP). Available from <http://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS> (accessed November 2016).

Figure 5:
Personal remittances received (% of GDP), ACP regions



Source: World Bank, *Development Indicators* (2015).

Note: Only ACP countries listed in table 1 included.

Several of the baseline assessments also highlighted examples of the crucial importance of remittances to individual states. Examples include:

Zimbabwe

In Zimbabwe, remittances are essential in allowing the country to deal in foreign currency. The recent shortage of USD has demonstrated how crucial this relationship is for Zimbabwe and how urgently the inflows need to be improved.

Somalia

In Somalia, 80 per cent of investment funds come from remittances as well as funding essential daily necessities, such as food and shelter, that local people require to survive. Therefore, remittances contribute to the stability and resilience of the Somali economy.

Kenya

In Kenya, the current property boom and activity in the stock market have partly been attributed to remittances.

Sierra Leone

In Sierra Leone, remittances were of fundamental importance in times of crisis. Remittance levels increased rapidly during the Ebola crisis, and initial studies seem to prove that they significantly affected coping capacity.³⁵

35 International Organization for Migration, Baseline Assessment, Sierra Leone (2015).

3

OVERVIEW OF CURRENT INITIATIVES

Overview of current initiatives

Global policy agenda

The increasing weight being given to international remittances within the global policy agenda reflects the growing understanding that improving and harnessing the flow of remittances can have a substantial impact on development. It also reflects the increasing scrutiny of illicit flows and their links to money laundering and terrorist financing, particularly following the events of 11 September.

1. G8's 5x5" objective

In 2014, the G8's commitment to reduce the global average cost of sending remittances from 10 per cent of the send amount to 5 per cent in the following five years – the “5x5” objective – ended. With the global average cost of sending remittances at 7.42 per cent of the send amount in quarter three (Q3) of 2016,³⁶ gains have been made to lower the cost for sending money home. However, the target of 5 per cent is still some way from being reached.

2. G20 Development Working Group on Financial Inclusion and Remittances

Following up on the 5x5, the G20 Development Working Group on Financial Inclusion and Remittances has adopted a Plan to Facilitate Remittance Flows. In their plan, they renew their commitment to the 5 per cent target (but did not commit to a specific timescale).

3. Sustainable Development Goals (SDGs)

Reducing remittance prices has now, importantly, also been included as a target within the Sustainable Development Goals (SDGs), as well as at the United Nations Third International Conference on Financing for Development (held in Addis Ababa). The Sustainable Development Goal 10.c is explicit in its target to: “By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent.”

36 World Bank, Remittance Prices Worldwide. Available from <https://remittanceprices.worldbank.org/en>.

4. Valetta Action Plan

Furthermore, the Valetta Action Plan, adopted by European and African Heads of State and Government in November 2015, recommends identifying “*corridors for remittances transfers where the partners commit to substantially reduce the costs by 2020 (...)*.” The Nairobi Remittances Action Plan under the auspices of ADEPT³⁷ has adopted a target for 10 African countries to have remittance prices of 3 per cent or lower.

Ongoing initiatives

1. Maya Declaration

The Maya Declaration, launched in 2011 at the Global Policy Forum (GPF) in Riviera Maya, Mexico, is an initiative to unlock the economic and social potential of the 2 billion unbanked world population through improved financial inclusion. As of June 2006, 58 AFI member institutions had made commitments to the Maya Declaration of which 43 were from ACP-EU countries.³⁸

2. IFAD (International Fund for Agricultural Development) – Financing Facility for Remittances (FFR)

The Financing Facility for Remittances (FFR) is a USD 35 million, multi-donor facility, administered by IFAD. The FFR has been working since 2006 with the goal of increasing the development impact of remittances and enabling poor rural households to progress on the road to financial independence. The FFR co-finances development projects in close collaboration with public, private and civil society partners and also works as an information broker to facilitate the dissemination, replication and scaling up of remittance-related best practices.³⁹

3. IFAD – Diaspora Investment in Agriculture (DIA) initiative

The DIA initiative works through selected financing mechanisms ranging from a competitive call for proposals to targeted investment. Through these mechanisms, eligible diaspora entrepreneurs, migrant organizations and key strategic en-

37 Africa-Europe Diaspora Development Platform.

38 Alliance for Financial Inclusion. Available from www.afi-global.org/sites/default/files/afi%20fidwg%20report.pdf (accessed November 2016).

39 International Fund for Agricultural Development, Diaspora Investment in Agriculture (DIA) initiative (2016). Available from www.ifad.org/documents/10180/4fab1867-3435-4597-8968-80877b933faa (accessed 21 November 2016).

tities are financed to implement projects that stimulate the development of the agricultural sector in their home countries. In particular, the initiative will identify and co-finance viable projects and models focused on food, security, diaspora investment and agricultural value chains.

4. EU-IFAD – African Postal Financial Services Initiative

IFAD's EU-funded African Postal Financial Services Initiative aims to ameliorate competition in the African remittance market by promoting and allowing rural post offices in Africa to offer remittances and financial services.

5. African Union – Africa Institute for Remittances (AIR)

AIR aims to build the capacity of the Member States of the African Union, remittance senders and recipients and other stakeholders to develop and implement concrete strategies and operational instruments to use remittances as development tools for poverty reduction. This initiative targets the broadest possible spectrum of stakeholders from Africa and the diaspora in a discussion on remittances and how they are sent and used. The results of this project are projected to reduce remittance transaction costs in Africa and improve the dissemination of data on remittance fees in major corridors.

6. IADB – Multilateral Investment Fund (MIF)

IADB's Multilateral Investment Fund (MIF) (FOMIN in Spanish) conducts high-risk experiments to test new models for engaging and inspiring the private sector to solve economic development problems in Latin America and the Caribbean. MIF operates in 26 countries across Latin America and the Caribbean.

7. European Union – DEVCO

DEVCO looks to ensure sustainable economic, social and environmental development and to promote democracy, the rule of law, good governance and the respect of human rights, notably through external aid. DEVCO fosters coordination between EU Member States in development cooperation and ensures the external representation of the European Union in this field. An example of a successful project initiated by DEVCO is the EU-CELAC migration project.⁴⁰

40 Strengthening the dialogue and cooperation between the European Union (EU) and Latin America and the Caribbean (LAC) to establish management models on migration and development policies. See also www.migracion-ue-alc.eu/index.php/en-GB/productive-investment-of-remittances

This project, implemented by the International Organization for Migration in coordination with FIIAPP⁴¹ developed institutional mechanisms to facilitate the (re)integration of migrants in the labour markets through five pilot projects in Guatemala, Mexico, Peru, Dominican Republic and Uruguay. Furthermore, in Bolivia, Brazil, Colombia, Haiti and OECS, public-private and civil society partnerships were formed to maximize the use of remittances as a development tool.

Another example of a DEVCO project is the EU's leveraging remittances to promote migrant entrepreneurship programme that was set up in the Netherlands, Ghana, and Suriname to facilitate the creation of new businesses by entrepreneurial and enterprising migrants. Its services were primarily offered to migrants who wish to set up a business in their countries of origin.⁴²

DEVCO also contributes financially to IFAD's Financing Facility for Remittances (FFR) and funds the African Postal Financial Services Initiatives (APFSI), also implemented by IFAD, and the ACP-EU Action on Migration and Development.

8. World Bank – African Diaspora Program

The World Bank African Diaspora Program works with both the African Union and African Development Bank to establish and support a Diaspora Remittance Investment Fund based on global experiences and initiatives that highlight the benefit of diaspora remittances for in-country investments for development.

9. African Development Bank – Migration and Development Initiative

The objectives of this initiative are: to set up a multi-donor trust fund 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; facilitate sharing knowledge and experiences among African countries.

41 International and Ibero-American Foundation for Administration and Public Policies.

42 European Commission, "Migrant Entrepreneurs". Available from https://ec.europa.eu/growth/smes/promoting-entrepreneurship/we-work-for/migrants_en.

International standards and principles setting

As a reaction both to the increasing focus on remittances and growing concerns over terrorist financing and money laundering, creating international standards and principles around the regulation of domestic and cross-border payments has also become a key issue on the global agenda.

The Financial Action Task Force (FATF), an intergovernmental body comprising 34 countries and two regional organizations, has taken a central role in developing standards to combat money laundering and terrorist financing. Its role includes setting minimum standards and making recommendations for its member countries. Each country must implement the recommendations according to its laws and constitutional frameworks. In 2001, FATF issued nine special recommendations to counter terrorist financing. For example, FATF Special Recommendation VI required FATF member countries to regulate all RSPs. In 2012, FATF revised its recommendations and Special Recommendation VI became FATF Recommendation 14 on Money or Value Transfer Services. Several other recommendations are relevant for remittance providers, including Recommendation 10 on wire transfers, Recommendation 11 on record keeping, Recommendation 16 on wire transfers, Recommendation 18 on internal controls and foreign branches and subsidiaries, and Recommendation 20 on suspicious transaction reporting.⁴³

FATF has also taken the lead in advocating a proportional and risk-based approach to financial regulation, which was another key recommendation to arise from analysis of the Action work to date and will be investigated in detail later in the report.

43 As cited by Weiss, M.A. Remittances: Background and Issues for Congress (May 2016). Available from www.fas.org/sgp/crs/misc/R43217.pdf.



THE WORLD BANK

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Box 1: World Bank General Principles for International Remittance Services

In 2007, the BIS and the World Bank jointly issued 'General Principles for International Remittance Services' to "help to achieve the public policy objectives of having safe and efficient international remittance services". This report sets out general principles aimed at helping the flow of remittances, including principles relating to transparency and consumer protection, legal and regulatory framework, market structure and competition and governance and risk management.

The report has become a bench mark for stakeholders seeking to improve and harness – and will be referred to throughout this report. The key contents are:

The General Principles and related roles

The General Principles are aimed at the public policy objectives of achieving safe and efficient international remittance services. To this end, the markets for the services should be contestable, transparent, accessible and sound.

Transparency and consumer protection

General Principle 1. The market for remittance services should be transparent and have adequate consumer protection.

Payment system infrastructure

General Principle 2. Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

Legal and regulatory environment

General Principle 3. Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

Market structure and competition

General Principle 4. Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.

Governance and risk management

General Principle 5. Remittance services should be supported by appropriate governance and risk management practices.

Roles of remittance service providers and public authorities

- A. *Role of remittance service providers.* Remittance service providers should participate actively in the implementation of the General Principles.
- B. *Role of public authorities.* Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the General Principles.

4

KEY CHALLENGES FACING REMITTANCES IN ACP STATES

Key challenges facing remittances in ACP states

This section will identify the current key challenges to achieving the recommendations of the ACP-EU Dialogue in ACP countries. These challenges will be drawn from the work the Action has conducted on the topic of remittances to date and from other reports and studies, where relevant.

Specifically, the following sources informed the issues discussed in this chapter:

- ACP-EU Migration Action Peer-to-peer Exchange Meeting on Remittances (Nairobi, 2016);
- Seminar on Remittances of the ACP-EU Dialogue on Migration and Development (Brussels, 2016);
- Baseline Assessments (BAs) on remittances carried out by the Action to date;
- Technical Assistance (TA) interventions carried out by the Action to date.

This analysis resulted in the definition of six broad categories of challenges:

- **High remittance costs;**
- **Access to formal remittance services in both the send and receive markets;**
- **Prevalence of informality;**
- **Limitations in maximizing the productive potential of remittances;**
- **Coordination between stakeholders;**
- **Lack of accurate and meaningful data.**

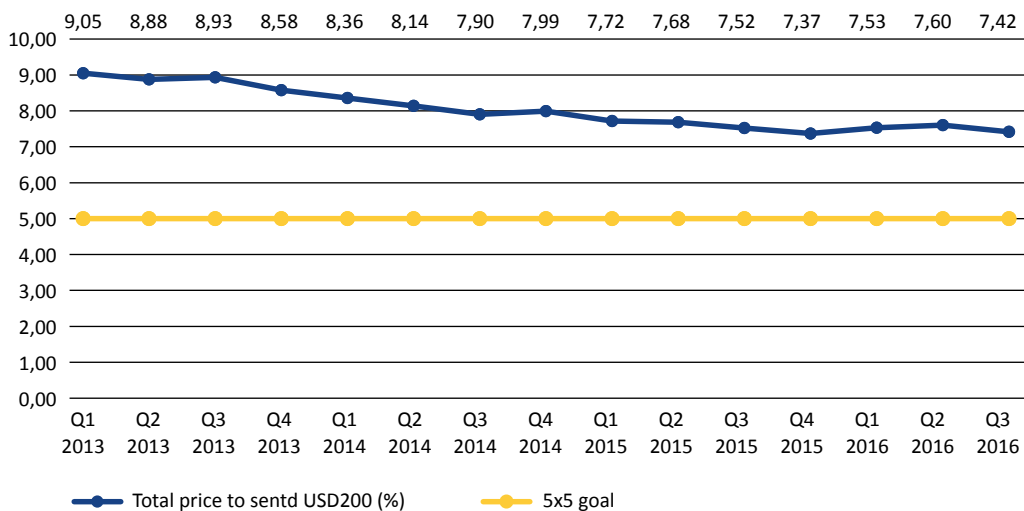
For each category, the main structural, regulatory and demand side obstacles will be highlighted and examined.

CHALLENGE I >>>>

HIGH REMITTANCE COSTS

Although the global average price to send USD 200 has been declining over time (from 9.05% in Q1 2013 to 7.42% in Q3 2016 – see figure 6) remittances remain expensive relative to the often-low incomes of migrant workers and the comparatively small amounts sent (typically no more than a few hundred dollars or its equivalent at a time). The total cost also remains significantly above the G8's 5x5 goal.

Figure 6:
Total cost to send USD 200 over time



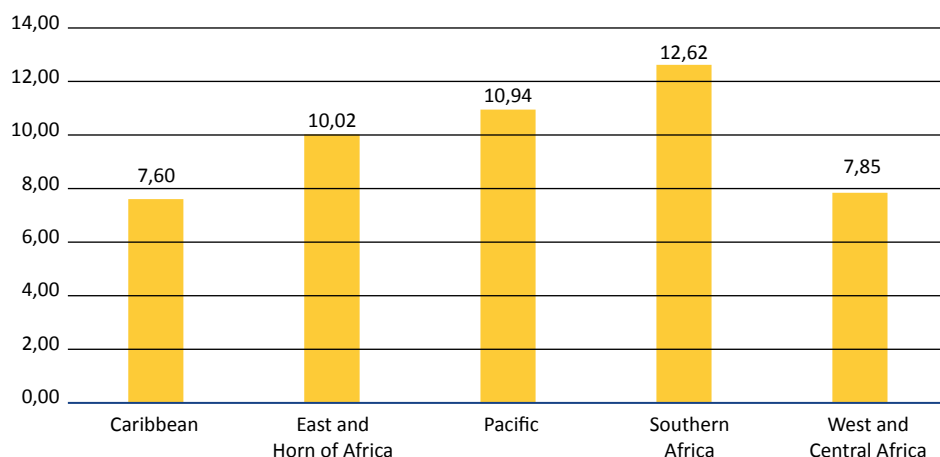
Source: World Bank, Remittance Prices Worldwide (Q3 2016).

The cost to send remittances to ACP countries, however, is significantly higher than the global average. To send 200 USD to ACP countries, the average cost pertains to 9.59 per cent of the amount sent, including 10.02 per cent to the Horn and East Africa, 10.94 per cent to the Pacific, and 12.62 per cent to Southern Africa (see figure 7). Sub-Saharan Africa and the Pacific Island countries have been identified as the most expensive regions to send money to in the world and

South Africa–Zimbabwe and Canada–Zimbabwe as the highest cost corridors for receiving remittances globally, at 13.6 and 13.2 per cent respectively to receive USD 200.⁴⁴

Figure 7:

Cost to send USD 200 to ACP countries, by region

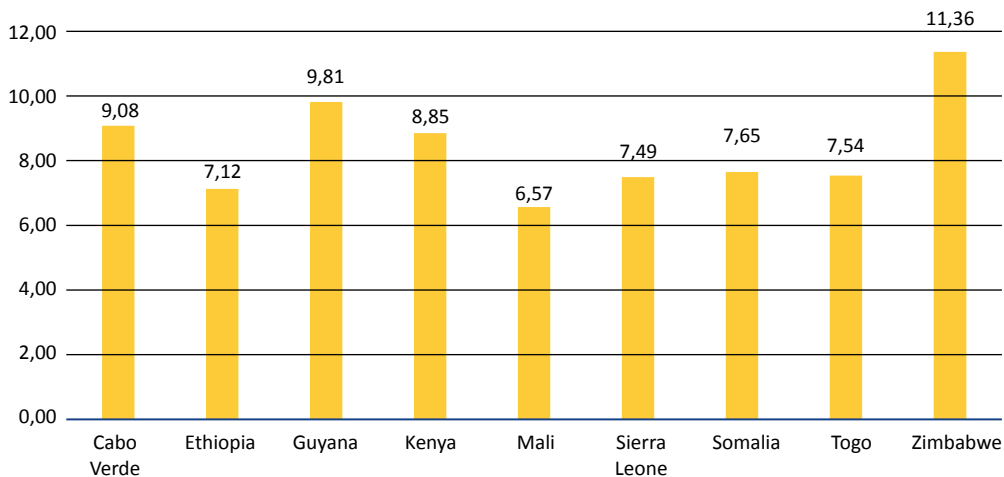


Source: World Bank, *Remittance Prices Worldwide* (Q3 2016).

Of the countries which have currently requested technical assistance from the ACP-EU Migration Action, the cost to send USD 200 ranges from 6.57 per cent (Mali) to 11.36 per cent (Zimbabwe). It should be noted that even for those countries where remittance costs are below the global average, specific corridors remain expensive. In Ethiopia, for example, the cost to send USD 200 from the UK is 9.43 per cent, and from Italy 8 per cent (see figure 9).

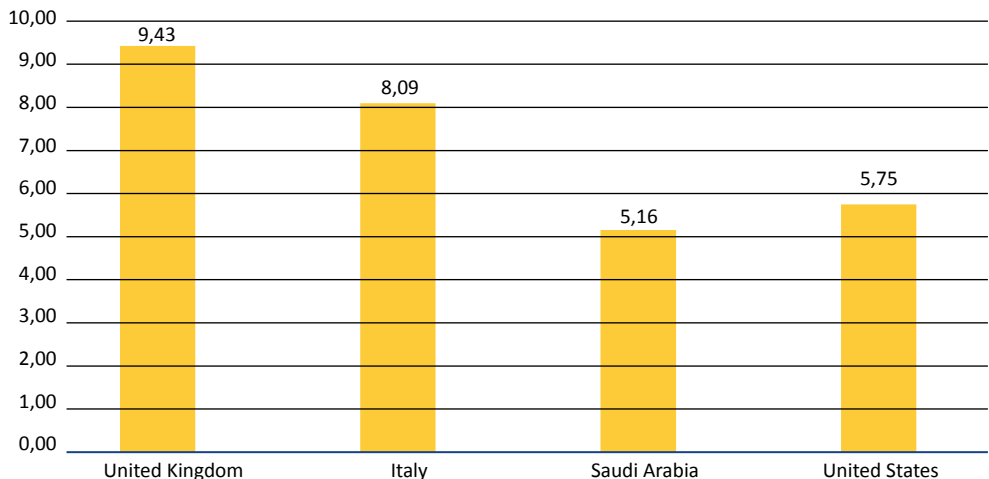
44 World Bank, *Migration and Remittance Factbook* (Washington, 2016). Available from www.siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1199807908806/4549025-1450455807487/Factbookpart1.pdf

Figure 8:
Average cost to send USD 200 to ACP countries who have requested technical assistance from the Action



Source: World Bank, *Remittance Prices Worldwide* (Q3 2016).

Figure 9:
Average cost to send USD 200 to Ethiopia, by send market



Source: World Bank, *Remittance Prices Worldwide* (Q3 2016).

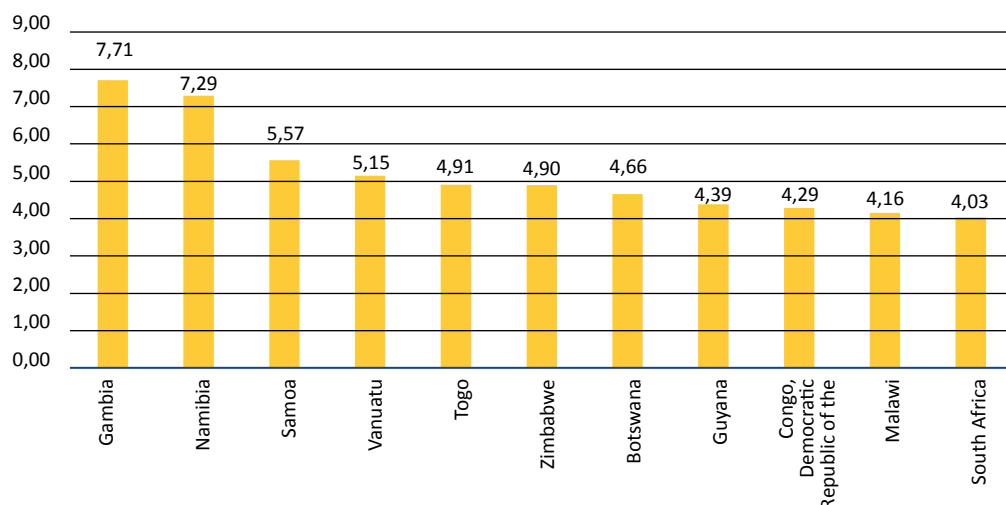
Key challenges to reducing the cost of remittances in ACP-EU countries

1. Transparency

Fair exchange rates and transparent fees were two of the key issues to be noted from the work of the Action to date, particularly when discussing how to improve financial services for migrants and their families.

Remittance prices are difficult to assess and compare due to: fees (often tiered structure); FX margins – i.e. the difference between the interbank foreign exchange rate and the rate charged by a payments service provider, which are often hidden and can be as high as 7.71 per cent in ACP countries (see figure 10) – and occasionally withdrawal costs, which can also be hidden, or not clear. A survey of migrants living in the UK in 2015, as part of the World Bank Greenback project, found that when migrants were asked how much they pay for their service, 69 per cent only stated the fee, with no knowledge that there was an FX margin, or possible pick up fees. This phenomenon most likely contributes to Remittance Service Providers (RSPs) ability to keep costs high.⁴⁵

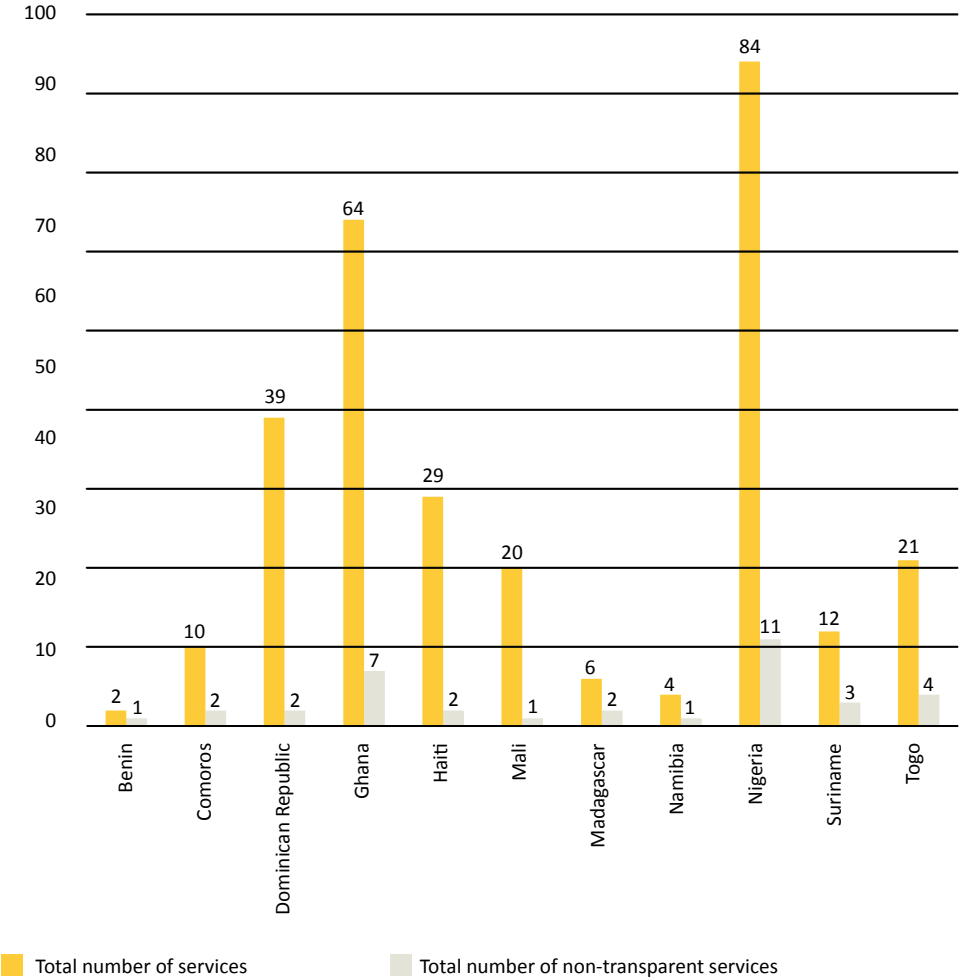
Figure 10:
Highest FX rate margins in ACP countries. (%)



45 Developing Markets Associates, Migrant Remittances from the United Kingdom, a Greenback Report (2016). Available from https://remittanceprices.worldbank.org/sites/default/files/migrants_remittances_uk.pdf (accessed November 2016).

Non-transparent RSPs, that is, RSPs who refuse to provide information on either the fee or FX margin, can also be an issue in ACP-EU countries. In the Remittances Prices Worldwide survey undertaken by the World Bank, the number of non-transparent services – services which do not reveal their prices when asked – was 36 out of 812 services surveyed, including 11 in Nigeria, 7 in Ghana, 4 in Togo and 3 in Suriname (see figure 11).

Figure 11:
Number of non-transparent services, by ACP country



Source: World Bank, *Remittance Prices Worldwide* (November 2016).

2. Awareness and financial education

Lack of consumer awareness with respect to different service providers and channels (especially digital) also exacerbates the issue of transparency. A survey of migrants living the UK in 2015 found that despite high financial literacy, high computer literacy and more competitive digital solutions being available, customers continued to prefer cash with its higher cost structure.⁴⁶ Data from FX-Compared found 87 per cent of UK consumers had heard of Western Union, while just 15 per cent of respondents had heard of digital challenger companies such as Remitly and WorldRemit, with just 12 per cent and 10 per cent of consumers having heard of them respectively.⁴⁷

Part of the difficulty consumers face in accessing and comparing the services available to them is that a complete and accurate database of remittances globally is not currently available. The closest that can be found is the *Remittance Prices Worldwide* (RPW) dataset managed by the World Bank, which compares the FX margin, fee, total cost and speed of service of over 365 remittance corridors globally (over 4,000 services), aiming to mystery shop at least 80 per cent of the market in each corridor it surveys. This includes 80 mobile services and 120 online services. Since RPW began in 2008, the global average price of sending USD 200 has fallen from 10 per cent to 7.40 per cent.

However, largely due to the intensive nature of the methodology, which relies on mystery shopping in each of the send countries, the database is limited in scope. Currently, 365 corridors are covered⁴⁸ and prices are collected quarterly. The frequency of data collection particularly limits its accuracy in volatile markets.

Certain countries, such as Australia, Germany, France, Norway, Sweden and Italy have developed national level databases and the World Bank has developed a set of standards and a certification process to ensure that the services meet consumer needs.

46 Developing Markets Associates, *Migrant Remittances from the United Kingdom*, a Greenback Report (2016). Available from: https://remittanceprices.worldbank.org/sites/default/files/migrants_remittances_uk.pdf (accessed November 2016).

47 FXCompared, *Money Transfer Report – Part 3* (2016). Available from www.fxcompared.com/intelligence/money-transfer-report-2016-part-3.

48 Note these are increasing year on year – from 120 when the project began.

Initiatives to increase the scope of such projects would not only ensure that consumers are aware of all remittance channels available to them, but that they can make an informed decision regarding the price of each service. Ensuring that such databases are advertised and promoted within migrant communities is also essential.

Box 2: Example from the Action: Lack of Awareness of alternative remittance channels in Kenya

Despite 58.4 per cent of Kenyans having access to a mobile money account in 2014, traditional remittance channels (such as commercial banks, Western Union, and MoneyGram) accounted for 59 per cent of the platforms used. This is in spite of these services generally being more expensive than alternatives such as mobile money and internet based platforms.

Source: International Organization for Migration, Baseline Assessment, Kenya (2016).

Overall, challenges in assessing fees and FX margins, lack of awareness over options in both the send and receive market, as well as non-transparency from some operators, all contribute to RSPs being able to keep prices artificially high in ACP-EU countries.

3. Competition and exclusivity

Exclusivity conditions are “where an RSP allows its agents or other RSPs to offer its remittance service only on condition that they do not offer any other remittance service.”⁴⁹

Exclusivity arrangements are one of the most severe limitations to effective competition in the remittance market, particularly in countries where access points are limited and/or restricted by regulation. An IFAD report in 2009 found that two major money transfer companies (Western Union and MoneyGram) controlled 65 per cent of all remittance payout locations in Africa.⁵⁰ Both companies had contractual clauses that ensured that entities wishing to partner with them only will work in exclusivity with them. This effectively “locked” more than half of all available payout locations in Africa to one of the two these two Money Transfer Operators (MTOs) and created a near monopoly. This left remittance senders having little choice as to which RSP to use.

While there has been considerable progress in banning exclusivity clauses, they remain prevalent in many ACP countries, including some currently undergoing a technical assistance intervention.

4 . De-risking

De-risking by banks and financial institutions represents a major challenge globally but in ACP countries in particular.⁵¹ This includes both de-risking by banks to MTOs, that is, the refusal to offer a bank account (or to close an existing account) because of the nature of their business, and de-risking of larger banks, usually located in the US/UK and Europe, of smaller/mid-tier banks who

49 World Bank, Committee on Payment and Settlement Systems, *General Principles for International Remittance Services* (2007). Available from <http://siteresources.worldbank.org/NEWS/Resources/GeneralPrinciplesforIntRemittances.pdf>.

50 International Fund for Agricultural Development, *Sending Money Home to Africa: Remittance Markets, Enabling Environment and Prospects*. Available from www.ifad.org/documents/10180/220fe203-55f2-48ee-b2e5-75fb5ac9d8b4.

51 Several reports have been released following concerns over de-risking in the Caribbean and Pacific. See for example: J. Thomas, *MTOs in the Pacific Rising to the De-risking Challenge* (2013), available from www.int-comp.org/insight/2015/july/13/mtos-in-the-pacific-rising-to-the-de-risking-challenge/, Swift, *De-risking in the Caribbean* (2016) and CCMF Working Paper *De-risking and its Impact: the Caribbean Perspective* (2016), available from www.ccmf-uwi.org/files/publications/working_papers/2016TWGDR.pdf.

require correspondent relationships to access other currencies and markets. This can sometimes mean that the RSP or bank has no access to any bank account. This may cause them to close.

Both of these de-risking events can result either in the removal of formal channels for sending money, a reduction in offerings, or an increase in prices. Although the relationship between remittance price increases and de-risking has not yet been officially proved, in a recent World Bank report it was found that in some of those countries most affected by de-risking, remittance prices were increasing, counter to the overall trend of falling remittance prices.⁵² In particular, in Somalia, perhaps the most obvious and extreme example of de-risking, costs increased by 1 per cent from the United Kingdom to Somalia following de-risking by banks in 2013.⁵³

5. Payments infrastructure in the third/last mile

Lack of access to remittance payout points in the third mile has two important impacts on cost:

1. It increases the direct cost of remittances by limiting competition, particularly where exclusivity agreements are in place;
2. It increases the indirect cost of collecting formal remittances due to time/cost required to travel and waiting time. In rural areas, this impact on cost can be highly significant.

This barrier will be investigated in more detail in the next section.

52 World Bank, *Report on the G20 Survey on De-risking Activities in the Remittance Market* (2015). Available from <http://documents.worldbank.org/curated/en/679881467993185572/Report-on-the-G20-survey-in-de-risking-activities-in-the-remittance-market>.

53 *Source:* Developing Markets Associates.

CHALLENGE 2 >>>>

ACCESS TO FORMAL REMITTANCE SERVICES IN BOTH THE SEND AND RECEIVE MARKETS

The challenge to access formal remittance services can be both on the send side (the first mile), and the receive side (the last mile). It not only keeps direct costs high by reducing consumer choice and competition, but it also increases indirect costs (transport, waiting time and the like) and can increase informal usage, particularly where access to formal channels is blocked.

The key obstacles preventing access to formal channels are identified below.

Key barriers to reducing the lack of access to formal remittance services in ACP-EU countries

Send markets

1. Irregular migration

Where irregular migration is high, many migrants are automatically excluded from accessing from formal remittance channels, due to not having formal identification to meet KYC requirements for cross-border transfers, or to being able to open a bank account in their host countries. Although figures are, by the very nature, difficult to access, the most recent estimates suggest that there are at least 50 million irregular migrants in the world. This is over one fifth of all international migrants, a significant number of whom have paid for assistance to cross-border illegally.⁵⁴

54 International Organization for Migration, *Global Migration Trends: an Overview* (2014). Available from http://missingmigrants.iom.int/sites/default/files/documents-Global_Migration_Trends_PDF_FinalVH_with%20References.pdf

For many migrants from ACP countries, this is one of the primary barriers to accessing the formal remittance services in certain corridors. This issue is acute in the Horn and East Africa where irregular migration from Djibouti, Ethiopia, Eritrea, Somalia, and Sudan to the Middle East and South Africa is prevalent. In 2014, 91,592 migrants arrived in Yemen by crossing the Gulf of Aden from Somalia or the Red Sea from Djibouti. In 2015, this number rose marginally to 92,466.⁵⁵ Indeed, during discussions with the Ethiopian embassies in Saudi Arabia and South Africa in the framework of the Technical Assistance intervention in Ethiopia, it was found that one of the most significant reasons for the use of informal services was an inability to access formal remittances services due to irregular migration. It is thought irregular migration comprises over 50 per cent of total migration in both countries.

Receive markets

2. Domestic payments infrastructure

During discussions held by the Action, it was highlighted by several stakeholders that convenient access to RSPs in rural areas is essential. Lack of financial infrastructure and access points (for example, ATMs, POSs, bank branches, microfinance institutions (MFIs), post offices, or MTO agents) limits both access points for cash-to-cash remittances, as well as the availability of downstream digital payments (not having to cash out/pre-paid card solutions).

The infrastructure needed to support remittance services in many ACP countries is not available, particularly in rural areas. For cash-to-cash products, many services require RSPs to cooperate to create a network of access points, and challenges can occur in achieving this. This is partly due to restrictions in regulations, but it can also more broadly reflect a lack of financial infrastructure in several countries. This includes bank branches, as well as post offices, MFIs, mobile money agents and other entities which might otherwise be used in the pay out of remittances. Many ACP countries also lack the availability of downstream digital payments (not having to cash out or pre-paid card solutions).

55 International Organization for Migration, “Irregular Migration in Horn of Africa Increases in 2015” (2015). Available from <https://iom.int/news/irregular-migration-horn-africa-increases-2015> (accessed October 2016).

In sub-Saharan Africa, for example, there were 6.14 ATMs per 100,000 people in 2015, compared to a global average of 40.55.⁵⁶

Moreover, the challenge reflects not just limited financial access points, but also ensuring that current access points have sufficient infrastructure, technology, ongoing liquidity and staff training to ensure effective remittance payout at all times. This applies to both remittance payout locations, and access locations for digital payments, such as ATMs, POSs and mobile money agents. The example highlighted in the P2P exchange of the challenges associated with pre-paid cards in Mozambique outlined the critical importance of sustaining liquidity in agent networks. When people did not have access to cash through agents or ATMs they borrowed money from money lenders.

An example of the challenges associated with sustaining an agent network was highlighted during the research for the IOM TA report for Ethiopia, where several stakeholder RSPs reported challenges with getting remittances to more rural bank branches. This was usually due to the lack of sufficient communication technology, which resulted in an increase in time taken to receive the remittance and, in more serious cases, even resulted in the consumer being unable to receive the money.⁵⁷

3. Regulatory environment

The regulatory environment can amplify challenges surrounding lack of access to financial services. Challenges include:

- o Restrictions on the type of services which can facilitate cross-border transfers;
- o Restrictions on the type of service which can pay out remittances;
- o Restrictions on who can access certain services – often related to AML/CFT regulations.

In several ACP countries, lack of access points to financial services is exacerbated by regulations which prevent certain entities from paying out remittances (see table 3). In Ethiopia and Sierra Leone for example, only banks can pay out remittances. Despite improvements in both countries in terms of the number

56 World Bank, Data, *Automated Teller Machines (ATMs) (per 100,000 adults)* (2015). Available from <http://data.worldbank.org/indicator/FB.ATM.TOTL.P5>.

57 International Organization for Migration, *Technical Assistance, Ethiopia* (to be published).

of bank branches, particularly in rural areas, this regulation still acts as a severe barrier to the facilitation of formal remittances and increases both the direct and indirect cost of remittances.

Table 3:
**Entities able to apply for a licence to pay out remittances
(including as subagents)**

Country	Region	Bank	Mobile money provider	Post office	MFI	Other NBFIs (Non-Bank Financial Institution)
Ethiopia	East and Horn of Africa				^a	
Guyana	Caribbean					
Cabo Verde	West and Central Africa					
Sierra Leone	West and Central Africa					
Zimbabwe	Southern Africa					
Somalia	East and Horn of Africa					
Kenya	East and Horn of Africa					
Mali	West and Central Africa					

^a As a sub agent of a bank.

Restrictive AML/CFT regulations also provide a challenge in both the send and receive countries, particularly where formal identification may be limited (receive country) or migration highly irregular (send country). The importance of proportionality in AML/KYC was emphasized frequently in discussion with the Action, and will be investigated more thoroughly through the recommendations in this report.

Box 3: Example from the Action: Challenge in access to formal remittance services in Ethiopia.

As recipients must collect their transfers from a bank branch, the time and expense it takes for them to travel to a branch can add substantially to the cost. Until recently, Ethiopia lagged behind its neighbours in the reach of its banking system. In 2008 there were only 1.2 bank branches per every 100,000 adults. Post offices, which are another method of distribution, have been given permission to distribute remittances, but do not do so in practice. The time it takes to deliver cash to their remote branches prevents quick delivery of payments to beneficiaries. Despite banks' recent penetration into previously unbanked areas, MFIs have a much wider network and while banks are often located in small towns, MFIs are also present at the village level. An IOM study of returnees from Saudi Arabia showed that many migrants do not use formal mechanisms of transfer, relying on agents to carry money. Illiteracy among emigrants and irregular migration are common, as is a lack of access to banking institutions for migrants, especially those in the Middle East and South Africa. Limited presence of financial institutions mean a large portion of the rural population remain out of reach of remittances.

Source: IOM, Baseline Assessment, Ethiopia (2016).

4. Awareness and financial education

Financial illiteracy and awareness can exacerbate issues around access to formal financial services in ACP countries.

CHALLENGE 3 >>>>

PREVALENCE OF INFORMALITY

Estimates of the prevalence of informality in remittance flows vary widely, ranging from 35 per cent to 250 per cent of total remittances. In 2005, a World Bank research paper used insights from literature on shadow economies to empirically estimate informal remittances for more than 100 countries. They found that informal remittances likely amount to approximately 35–75 per cent of official remittances to developing countries. There was also significant regional variation. Informal remittances to sub-Saharan Africa and Eastern Europe and Central Asia were found to be relatively high, while those to East Asia and the Pacific were relatively low.⁵⁸ These findings were similar to a study by Page and Plaza (2006) who estimate that unrecorded remittances are 73 per cent of total remittances in sub-Saharan Africa (compared to 45–60% in LAC, EAP and ECA).⁵⁹

Estimates in several Baseline Assessments carried out by the Action, as well as discussions with IOM and the Action stakeholders conducted during research for this report, suggest that informal remittances are at least as high as formal in the countries studied, with some figures placing it as high as 70 per cent (see table 4).

58 Freund and Spatafora, *Remittances: Transaction Costs, Determinants, and Informal Flow* (2005). Available from <http://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-3704>

59 Page and Plaza (2006), as cited by Geda et al., “Remittance and Remittance Service Providers in Ethiopia” (2011), IAES Working Paper Series No. A02/2011.

Table 4:
Estimated size of informal flows, as referenced in the IOM Baseline Assessments and P2P Exchange Meeting on Remittances

Country	Estimated size of informal flow
Ethiopia	'The volume of informal transfers is unknown, but potentially as large as formal ones.'
Zimbabwe	'An estimated 50 % of remittances are circulating through private channels like money transfer agents or telecommunication systems. However, transportation agents (road and airline) and private / family networks are still handling informally an estimated important part of the transfers, despite the higher risks of fraud the migrants are exposed to.'
Sierra Leone	Estimated 70 % informal. ^a
Kenya	'Informal channels are a popular channel for remitting money with 26 % of the respondents choosing to remit money through friends, relatives or themselves.' ^b

Source: IOM, Baseline Assessments (2016).

a Discussions with the Action stakeholders and IOM.

b Study by Mwangi (2013) as cited in the International Organization for Migration, Baseline Assessment, Kenya.

The challenges associated with the high levels of informality are varied, and exist on micro, meso and marco levels. These include:

- **No way to track and record flows to prevent money laundering and terrorist financing.**
- **The foreign exchange component is lost from the formal system.** High levels of informality reduce access to foreign exchange in both the private and the public sector, as well as the effectiveness of the formal banking system. Where informality is highly significant, it can also reduce the effectiveness of monetary policy. This was as highlighted in IOM's Sierra Leone Baseline Assessment.⁶⁰

60 Example of Sierra Leone from International Organization for Migration, Baseline Assessment, Sierra Leone (2015).

- **Consumers have no formal protection of their funds.** Funds which flow through informal channels are not subject to consumer protection regulation. Clients of informal remitters can therefore be more at risk than those using the services of officially regulated remitters. Bond, capitalization, auditing, reporting and disclosure requirements can shield consumers from excessive fees, fraud or other losses.⁶¹ This is particularly a problem in the case of undocumented immigrants, who have few or no official recourses when they are victimized.
- **Collecting accurate data on remittances becomes extremely challenging.** Data collection becomes a greater challenge with high levels of informality. This has the knock-on effect of making it more difficult to create effective policies around remittances. Even household surveys may not give accurate figures, with people unwilling to report their informal transactions. For more detail see Challenge 6 (Lack of accurate and meaningful data).
- **Credit-worthiness of recipient countries is affected.** Informal flows by definition usually go unrecorded, and therefore cannot be used to allow countries to take on more debt and fund productive investment or they may have to pay more to borrow money.

Key barriers to reducing informality in ACP countries

The structural reasons for the use of informal transactions overlap with the previous sections, including the high cost of formal remittances and the lack of access to formal services. Exchange controls, de-risking and taxes on remittances may also produce structural barriers to the use of formal remittances. Added to this, behavioural and cultural barriers should not be underestimated, particularly in certain ACP markets such as Sierra Leone.

61 N. Passas, *Fighting Terror with Error: The Counter-productive Regulation of Informal Value Transfers* (2006). Available from <http://link.springer.com/article/10.1007/s10611-006-9041-5>. It is important to note that the paper also highlights that the inbuilt trust of informal systems means that protection of consumer funds could, for the most part, be guaranteed. However, no formal robust studies have been undertaken on this.

1. Cost of formal remittance services

The high cost of formal services in comparison to informal includes direct, indirect and comparative costs.

Direct costs. Although difficult to compare, it is thought that informal services tend to be the same price, or cheaper, than formal services. For some informal services, remittances are only part of their business; most profits come from trade receipts, which allows costs to be kept low.⁶² For example, the Government of Mali has produced figures to enable a comparative analysis of the costs applied by the different operators in the country: Banque Malienne (EUR 8–10); Western Union (4–8% of the total price); postal service (15–20% of the total price); and informal services (3–10% of the total price).⁶³

Comparative costs. In those countries where a parallel exchange market exists, the comparative benefit of using it makes it attractive for remitters and receivers. In Ethiopia, for example, evidence collected from the IOM TA found that the parallel exchange rate effectively adds between 5 and 15 per cent to the amount received by the beneficiary. It is beyond the scope of this paper to develop solutions to parallel market exchange rates as this requires concerted government macro-policy intervention.

Indirect costs. The monetary and time cost of travelling (and waiting) in a remittance payout location, as opposed to cash hand-delivered to the door, needs to be taken into consideration when understanding the prevalence of informality. This is particularly relevant to countries with limited financial access points.

62 See, for example, Anti-Corruption Resource Centre, *Hawala Remittance System and Money Laundering* (2008). Available from www.u4.no/publications/hawala-remittance-system-and-money-laundering/downloadasset/375.

63 International Organization for Migration, *Baseline Assessment, Mali* (2016).

Box 4: Exchange controls – parallel markets and restrictions on outbound payments

Many governments have exchange controls to manage their exchange rate, which can lead to parallel markets. Exchange controls in essence create a tax on the formal remittance market and as a response, people often either transfer in USD formally or opt for informal transfers which use the parallel market rate. Examples of ACP countries where this is an ongoing issue include Nigeria, Ethiopia, and Angola. In Ethiopia, interviews with stakeholders and diaspora groups for the IOM Technical Assistance highlighted exchange controls, and the associated costs, as one of the key reasons for diaspora choosing to send money informally.

Governments can also place heavy restrictions on outbound payments. This is particularly relevant for intra-Africa remittance corridors, where people may have no choice but to send money informally (for example, cash carrying), or, more recently, through digital payments.

2. Culture/behavioural preference for informal channels

When analysing the reasons for informality, it is important to recognize not just the structural factors, but also the demand-side factors. These include behavioural areas of habit and culture as well as mistrust in formal financial institutions.

An example of this can be found in Sierra Leone, where during the war unauthorized money traders were able to operate even when commercial banks and other formal money transfer operators fled. This, along with the fact that people could not access their money in commercial banks for a period of 11 years contributing both to trust and experience of the informal sector, and mistrust of formal institutions and a culture of using informal institutions, which is part of the explanation for the high ongoing prevalence of informality in Sierra Leone with estimations placing it at close to 70 per cent.⁶⁴

3. Access to formal remittances services

As highlighted in Challenge 2 (Access to formal services in both the send and receive market), lack of access to financial infrastructure can be a key reason for informal remittances.

64 International Organization for Migration, Baseline Assessment, Sierra Leone (2015). Estimate of informality from discussions with the Action.

CHALLENGE 4 >>>>

LIMITATIONS IN MAXIMIZING THE PRODUCTIVE POTENTIAL OF REMITTANCES

This section will explore the limitations in maximizing the productive potential of remittances in two parts. Firstly, it will examine the limitations associated with the (on average) low value of remittance payments, and the large proportion of remittances which are regularly spent on household consumption.

Secondly, it will examine the limitations associated with the low access to formal financial services found in many ACP States.

Key barriers to maximizing the potential for remittances

1. Majority of remittances are low value and spent on household expenditures

This is perhaps the most significant restriction on harnessing remittances for productive investment. In several ACP countries, household surveys and studies have shown that the majority of remittances are low value and sent for daily expense and consumption purposes. A 2010 World Bank survey, for example, indicated that the average Ethiopian household only received USD 120 and that 57 per cent of remittances received were spent exclusively on daily expenses.⁶⁵

This leaves a limited amount to be invested and demonstrates a severe limitation in maximizing the productive potential of remittances. Similarly the Government of Mali estimates that 80 per cent of the funds received from the diaspora are used for family consumption purposes, while only 15 per cent is

65 World Bank, Household Survey (2010). Available from <http://microdata.worldbank.org/index.php/catalog/mrs>.

invested in community development projects and the remaining 5 per cent is used for productive investment.⁶⁶

2. Limitations in financial options for remittance-receiving households

Lack of access to an account at a financial institution and other financial services also severely limits the options for remittance-receiving households, even where saving and investment might be possible.

On average, only 22.3 per cent of adults (aged 15+) hold an account at a financial institution in low income countries⁶⁷ and an estimated two billion (38%) working-age adults globally have no access to financial services delivered by regulated financial institutions.⁶⁸

Several ACP countries have some of the lowest rates of financial inclusion in the world. These include Niger (6.7%), Guinea (7%), Burundi (7%), Madagascar (8.6%), Cameroon (12%), Chad (12.4%), Burkina Faso (14.4%), Sudan (12.3%), Senegal (15.4%), the Republic of Congo (17%), the Democratic Republic of Congo (17.47%), Malawi (18%) and Togo (18.2%).⁶⁹

When looking at the number of people (aged 15+) who saved at a financial institution, the percentages for many ACP countries are even lower. Some of the lowest include Niger (1.98%), Somalia (2.81%), Guinea (2.87%), Mali (2.88%) and Madagascar (3.26%). Similarly, only 1.27 per cent of adults (aged 15+) in Niger borrowed from a regulated financial institution, 1.5 per cent in Burundi, 1.94 per cent in Cameroon and 1.95 per cent in Guinea.⁷⁰

66 International Organization for Migration, Baseline Assessment, Mali (2016).

67 World Bank, The Global Findex Database (2014). Available from <http://documents.worldbank.org/curated/en/187761468179367706/pdf/WPS7255.pdf#page=3>.

68 World Bank Group to the G20 Global Partnership for Financial Inclusion, "The Use of Remittances and Financial Inclusion" (2015). Available from <https://www.ifad.org/documents/10180/5bda7499-b8c1-4d12-9d0a-4f8bbe9b530d>.

69 World Bank, The Global Findex Database, "Per cent of adults (age 15+) with an account at a financial institution" (2014). Available from <http://documents.worldbank.org/curated/en/187761468179367706/pdf/WPS7255.pdf#page=3>.

70 World Bank, The Global Findex Database (2014). Available from <http://documents.worldbank.org/curated/en/187761468179367706/pdf/WPS7255.pdf#page=3>.

This limited access to formal financial services in ACP countries represents a significant barrier for those wishing to save and invest their remittances, as well as a barrier to development more broadly. Without access to financial services, for example, individuals cannot accrue interest on their saving, or build up an individual credit history. On meso and macrolevels, savings cannot be used as liquidity for formal financial services, and, in turn, increase lending and investment in the local and national economy.

3. Availability of remittance-linked and remittance-backed financial products

In many ACP countries, remittances can only be collected from a financial institution (see table 3). This often represents one of the only times remittance receivers will encounter formal financial services. Thus, there has been an increasing focus on how to utilize this opportunity to encourage financial inclusion, including developing remittance-linked (such as savings products, loans and insurance) and remittance-backed products (products which use the remittance receipt to assess and approve credit).

There have been several successful initiatives designing remittance-linked products, including in ACP countries. However, challenges remain. These include low financial literacy rates and lack of marketing and awareness of financial products. Conveying the business case to financial institutions can also be a challenge, particularly where remittance recipients are not seen as a key target market, often due to the relatively small amounts received and the lack of a credit history.⁷¹

Remittance-backed financial products also come with significant challenges. This includes institutions lacking the technical ability to assess remittance recipients effectively, as well as questions over how remittance-backed products should be designed, so that the risk is proportionate for both the receiver and the financial institution.⁷²

71 It is important to note that increasingly, this attitude is changing. The TA for Ethiopia, for example, found that Commercial Bank of Ethiopia had already begun a pilot to expand banking services to remittance receivers, although it is too early to see the results of this work.

72 For more information, see International Fund for Agricultural Development, *Sending Money Home to Africa: Remittance Markets, Enabling Environment and Prospect* (2009). Available from <https://ifad.org/topic/resource/tags/remittances/2039321>

CHALLENGE 5 >>>>

COORDINATION BETWEEN STAKEHOLDERS

Coordination between the many different stakeholders in terms of a harmonized approach to tackling the challenges with remittances can be a significant problem, on the national, regional and international levels. Responses to the challenges require a coordinated approach across multiple bodies, including foreign affairs ministries, Central Banks (and various departments within them), regulatory bodies, the private sector, non-governmental institutions, and state/regional planning agencies.

However, coordination is essential. Remittances, and the challenges associated with them, are highly complex, and often involve several departments, disciplines and competing agendas. For example, AML/CTF initiatives are important to all government and law-enforcement bodies. Similarly, exchange rate controls severely limit the flow of remittances through formal channels, but some countries view them as essential to maintain macro-financial control.

Open discussions between government departments on subjects are therefore essential. While it is crucial that the issue of remittances is given political strength, it also needs to be understood within a wider context of competing policies and ideas. Linked to this, accurate and meaningful data is essential if policies are to be effectively assessed and evaluated, as will be discussed under challenge 6.

**Box 5: Example from the Action:
Challenges of stakeholder engagement in Sierra Leone**

In Sierra Leone, the IOM Baseline Assessment highlighted that key relevant stakeholders have encountered numerous issues. The Office of Diaspora Affairs has been constrained by weak financial capacity, low political weight, and few skilled personnel. Issues such as lack of political will and influence, lack of policy backing, weak capacity and lack of local content have affected other key stakeholders. This has ultimately restricted stakeholder intervention and negatively impacted stakeholder coordination.

Source: IOM, Baseline Assessment, Sierra Leone, 2015.

CHALLENGE 6 >>>>

LACK OF ACCURATE AND MEANINGFUL DATA

During analysis done for this report, the lack of accurate and meaningful data was identified as a key barrier to creating adequate and affordable financial services for migrants and their families. Some examples of the specific challenges which arise from lack of data exist include:

The importance of data in debunking the de-risking problem. This is a complex area that needs a coordinated response across many stakeholders, some of whom have completely differing objectives. For example, law enforcement has a different agenda to development agencies.

The importance of data and information in creating proportionate regulatory environments. If better use can be made of data that is available in the market, from MTOs and others, and analysed effectively, it is anticipated that items such as transaction limits at which information is required on senders and receivers would only be introduced for certain categories of payments. For example, it may be that small transactions below USD 200 would not require the same level of identification.

The importance of data in understanding the remittance consumer and gaps in the remittance market. In order to improve remittance flows and provide the most effective use of funds, it is essential to understand how, why and where remittances are currently being sent. Reliable, meaningful data is essential to this.

Key barriers to accurate and meaningful data on remittances

1. Limitations in methodology to calculate the size of remittance flows

There are a variety of methods commonly used to estimate the total size of remittance markets. These include:

- A. **Data based on the balance of payments framework;**
- B. **Data on migrant stocks and income differentials to produce estimates for a bilateral matrix of remittances;**
- C. **Survey-based estimates.**

While each methodology has strengths, there are several challenges involved. Some of these are highlighted below.

A. *Data based on the balance of payments framework*

One of the main sources of data on migrants' remittances is the annual balance of payments records of countries, which are compiled in the Balance of Payments Yearbook published annually by the International Monetary Fund (IMF).

The IMF data on remittances includes three categories of data:

- **Workers' remittances** refer to transfers in cash or in kind from migrants to resident households in the countries of origin.
- **Compensation to employees** refers to the wages, salaries, and other remuneration, in cash or in kind, paid to individuals who work in a country other than where they legally reside.
- **Migrants' transfers** refer to capital transfers of financial assets made by migrants as they move from one country to another and stay for more than one year.

One of the challenges of the IMF data is the broad definition used of "remittance," as defined by the categories of data used. By adding "compensation of employees" and "migrant's transfers," the definition is much broader than the standard definition of remittances, such as the one used in the report. This is particularly a problem where compensation to employees and migrant transfers may represent a large value, for instance, where international organizations, embassies, consular networks, or non-resident companies are large.⁷³

A second challenge concerns the collecting and consistency of data. Concepts and methodologies are not applied uniformly across all countries, with different interpretations of definitions, classifications and data sources, as well as different compilation methods used in different jurisdictions.

73 *Migration Policy Practice*, 5(2) (2015). Available from <https://publications.iom.int/books/migration-policy-practice-vol-v-number-2-april-june-2015>.

For instance, some countries use international transactions data from the banking sector, but this is not likely to include informal remittances or those made through RSPs.⁷⁴

Furthermore, constraints on resources and institutional capacity limit the ability of many countries to collect the necessary data, increasing inconsistency and weakening the strength of data in certain jurisdictions.⁷⁵

**B. Data on migrant stocks and income differentials,
used to estimate bilateral matrix of remittance**

The World Bank's bilateral estimates are released annually, and has been described as "the fullest, though arguably the least accurate, set of data."⁷⁶

The data consists of estimates of remittance flows for nearly all remittance corridors. For each remittance corridor, flows are calculated based on (i) weight-based migrant stocks, (ii) weight-based migrant incomes, proxied by migrant stocks multiplied by per capita income in the destination country and (iii) weights that take into account migrants abroad as well as in the source countries.⁷⁷

In doing so, estimations are able to be produced for nearly all global remittance corridors. However, there are several weaknesses in the methodology, which include:

74 For more information, see Reinke, *Remittances in the Balance of Payments Framework: Current Problems and Forthcoming Improvements* (2007). Available from www.imf.org/external/np/sta/bop/pdf/rem.pdf.

75 Ibid.

76 Ratha and Shaw (2007), as cited by *Migration Policy Practice*, 5(2) (2015). Available from http://publications.iom.int/system/files/pdf/mpp_issue_19.pdf

77 For more information, see *Migration Policy Practice*, 5(2) (2015). Available from http://publications.iom.int/system/files/pdf/mpp_issue_19.pdf

1 Use of “migrant stock” data

Migrant stock data is defined as “the number of people born in a country other than that in which they live.”⁷⁸ There are multiple challenges with using this definition of migrant stock as a proxy for the number of those sending remittances. Firstly, and perhaps most importantly in the context of ACP countries, it does not take into account irregular migrants. As discussed in the section on access to remittances in the send market, this is thought to be over 50 per cent of total migration in many countries. Furthermore, it also does not include second and third generation migrants who studies have often been found to be active in the remittance market.

2 Use of GNI per capita

The methodology assumes that every migrant sends at least the equivalent of the GNI per capita in his or her country of origin. This, in turn, assumes that a migrant earns at least as much in its host country as its origin country (bearing in mind that this includes migration to countries with a lower income than the origin country, including refugees). The methodology also does not take into account that GNI per capita does not reflect the internal inequalities in income distribution within a country.⁷⁹

C. Survey-based estimates.

Given the limitation in the above data sources there has been an increasing focus on using household surveys to estimate remittance values.

However, this methodology also includes difficulties in obtaining accurate estimates. Information on remittances, for example, may be considered highly sensitive by the survey respondent, and hence obtaining accurate information can be a challenge, particularly as it relates to irregular migration and/or informal remittances.

78 Definition used in World Bank, *Development Indicators Data Set, Bilateral Migration Matrix* (2013). Available from www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data.

79 For more information, see *Migration Policy Practice*, 5(2) (2015). Available from http://publications.iom.int/system/files/pdf/mpp_issue_19.pdf

Data collection for surveys can also be costly and time consuming, and thus is not generally carried out at frequent intervals, or considered a high priority in countries already facing large constraints on resources.

Another challenge is the “scaling up” of surveys to produce estimates at a national level of the value of remittances. The most commonly used framework for this is a formula that allows calculating the “total volume of remittances” by multiplying the total number of migrants, the percentage of migrants that remit and the average amount remitted. However, in doing so, similar problems are encountered with using migrant stock, or how the term “migrant stock” is defined, as with a bilateral matrix.⁸⁰

2. Lack of coordination, or unwillingness to share data between entities

There is very little data sharing between agencies and government entities. The World Bank faces issues in collecting remittances data from many central banks. This can be because they see no added value in gathering it or there are political reasons to withhold the information. Governments do not always release accurate data to agencies and the World Bank, in particular, cannot go beyond those political sensitivities.

3. Measuring the size of informal flows

Measuring the size of informal flows continues to be a huge challenge. Even when household surveys are undertaken the data tends to underreport figures. As highlighted in the section on macro remittance data, the main methodologies for estimating the size of remittance flows (IMF balance of payments, World Bank bilateral matrix) are often not able to effectively capture informal flows adequately.

80 For more information, see *Migration Policy Practice*, 5(2) (2015). Available from http://publications.iom.int/system/files/pdf/mpp_issue_19.pdf

>>>> Challenges overview

1.

HIGH REMITTANCE COSTS

Overall, the cost to send USD 200 to ACP countries averages at 9.59 % – almost double the G8's 5x5 goal, and significantly higher than the global average of 7.40 %. The *World Bank Migration and Remittances Factbook 2016* (World Bank, 2016) identified sub-Saharan Africa and the Pacific Island countries as the most expensive regions to send money to in the world. These costs are particularly of note given the often-low incomes of migrant workers and the comparatively small amounts sent (typically no more than a few hundred USD or its equivalent at a time).

2.

ACCESS TO FORMAL REMITTANCE SERVICES IN BOTH THE SEND AND RECEIVE MARKETS

Where irregular migration is high, many migrants are automatically excluded from accessing remittance channels in the send country, due to not having formal identification to meet know your customer (KYC) requirements for cross-border transfers. For many migrants from ACP countries, this is one of the primary barriers to accessing formal remittance services in certain corridors. This issue is particularly acute in the Horn and East Africa where irregular migration from Djibouti, Ethiopia, Eritrea, Somalia, and Sudan to the Middle East and South Africa is prevalent.

In terms of receiving remittances, many ACP countries face a challenge with access to domestic payments infrastructure, particularly in isolated areas. The infrastructure required to support remittance services can include bank branches, post offices, microfinance institutions (MFIs), mobile money agents and other non-financial infrastructure, depending on the regulation in the country.

3. PREVALENCE OF INFORMALITY

Estimates of the prevalence of the informal sector in remittances vary widely, ranging from 35 % to 250 % of total remittances. Estimates from ACP countries' baseline assessments and technical assessments suggest that the value of informal flows is at least as large as formal ones.

There are various problems associated with countries having such a large flow of informal remittances. These include having no way to track and record flows to prevent money laundering and terrorist financing, consumers having no formal protection of their funds, a reduction in the access to foreign exchange in the private and public sector, as well as a reduction in the effectiveness of the formal banking sector, and a reduction in the ability to use remittances for financial inclusion.

4. LIMITATIONS IN MAXIMIZING THE PRODUCTIVE POTENTIAL OF REMITTANCES

In several ACP countries, household surveys and studies have shown that the majority of remittances are low value and sent for daily expense and consumption purposes, rather than investment. Even where part of a remittance transfer could be saved and/or invested, lack of access to an account at a financial institution severely limits the options for remittance-receiving households, even where saving and investment might be possible. On average, only 22.3 % of adults (aged 15+) hold an account at a financial institution in low income countries, and several ACP countries have some of the lowest rates of financial inclusion in the world. These include Niger (6.7%), Guinea (7%), Burundi (7%), Madagascar (8.6%), and Cameroon (12%). This limited access to formal financial services in ACP countries is a significant barrier for those wishing to save their remittances, as well as a barrier to development more broadly. Without access to financial services, for example, savings cannot accrue interest, they cannot be lent out to be reinvested in the local economy, and no individual credit history can be built.^a

a World Bank, The Global Findex Database (2014). Available from <http://documents.worldbank.org/curated/en/187761468179367706/pdf/WPS7255.pdf#page=3>.

5.
COORDINATION BETWEEN
STAKEHOLDERS

Coordination between the many different stakeholders in terms of a harmonized approach to managing remittances can be a significant challenge, on a national, regional and international level. Responses to the challenges require a coordinated approach across multiple bodies, including foreign affairs ministries, central banks (and various departments within them), regulatory bodies, the private sector, non-governmental institutions, planning agencies and statistics agencies.

6.
LACK OF ACCURATE AND
MEANINGFUL DATA

There are several challenges with gaining accurate and meaningful data on remittances in ACP States and globally. These include limitations in the methodologies to calculate the size of remittance flows, lack of coordination or unwillingness to share data between entities, and challenges with measuring the size of informal flows. Without accurate data it is difficult to develop meaningful policies.

5

WAYS FORWARD: KEY RECOMMENDATIONS AND BEST PRACTICES

Ways forward:

Key recommendations and best practices

This section will take the challenges outlined in section 4 (Key challenges facing remittances in ACP States), as a basis for examining new initiatives and solutions in addressing the recommendations of the ACP-EU Dialogue on Migration and Development.

The section is broken down into nine key recommendations:

- 1 Create an enabling regulatory framework for cross-border payments;**
- 2 Improve domestic payments infrastructure;**
- 3 Improve data collection on remittances and payments systems;**
- 4 Increase transparency;**
- 5 Introduce incentives for lowering costs of remittances;**
- 6 Improve irregular migrants' access to formal remittances;**
- 7 Use remittances as a tool for financial inclusion;**
- 8 Encourage informal into formal and engage the informal sector;**
- 9 Improve coordination among stakeholders.**

Each section will highlight key actions and/or initiatives which have been suggested both through the ACP-EU baseline assessments and technical assistances, the P2P meeting and the Seminar on Remittances of the ACP-EU Dialogue on Migration and Development. Analysis will also include global practical examples of best practices and major and most recent publications on remittances by the World Bank, IFAD, IOM and other stakeholders and key players.

RECOMMENDATION I >>>>>

CREATE AN ENABLING REGULATORY FRAMEWORK FOR CROSS-BORDER PAYMENTS

Key challenges addressed

High remittance cost	
Lack of access in the receive market	
Lack of access in the send market	
Prevalence of informality	
Limitations in maximizing productive potential for remittances	
Coordination between Stakeholders	
Lack of accurate and meaningful data	

Practical recommendations

1. **Adopt a proportional approach to regulating remittances, recognizing the relative risks involved**

A proportional approach to licensing entities was one of the key recommendations arising in discussions with stakeholders through the Action and IOM. Achieving a proportional framework is considered essential to increasing competition, improving access to financial services, decreasing informality and reducing the cost of sending remittances. However, it was also considered extremely challenging, both because of the conflicting objectives associated with it, and the fact it is often enforced by different public bodies.

Taking a proportionate approach to regulation means understanding the challenges involved with cross-border transfers while also recognizing the importance of

facilitating productive remittance flows through formal channels. This proportionate approach applies both for licencing entities, ongoing compliance, KYC/AML regulation and the regulatory framework surrounding new technologies. For example, one way to encourage competition in the remittance market is to reduce the barriers to entering the market as far as possible, and regulation can be a significant barrier because of the costs of compliance and prudential requirements. However, other public policy objectives such as preventing money laundering or terrorist financing require potentially burdensome regulation. Proportionality means that any such inconsistencies are recognized and assessed in the light of a country's overall priorities.⁸¹

Similarly, a proportional approach also means assessing individual transfers and the risks associated with them. Many remittance transactions are of low value (less than USD 200) and the risks associated with them are therefore also considered to be low. Evaluating the number and value of transfers involved, and making regulation accordingly “risk-based” (as recommended by FATF), can be essential in allowing those who do not meet the ID requirements of the send country to send money below a certain amount through formal channels.

Given the often-conflicting objectives associated with creating a proportionate framework, coordination of stakeholders is essential in ensuring an effective, risk-based and proportional approach. This is one of the key recommendations included here.

81 World Bank, Committee on Payment and Settlement Systems, General Principles for International Remittance Services (2007). Available from www.bis.org/cpmi/publ/d76.pdf.

Box 6: FATF – guidance for a risk-based approach – simplified customer due diligence (CDD) measures

FATF recommends that, “where the risks of money laundering or terrorist financing are lower (e.g. with low value transactions), financial institutions could be allowed to conduct simplified CDD measures, which should consider the nature of the lower risk.”

The simplified measures should be commensurate with the lower risk factors (for example, the simplified measures could relate only to customer acceptance measures or to aspects of ongoing monitoring). Examples of possible measures are:

- Reducing the frequency of customer identification updates;
- Reducing the degree of ongoing monitoring and scrutinizing transactions, based on a reasonable monetary threshold;
- Not collecting specific information or carrying out specific measures to understand the purpose and intended nature of the business relationship, but inferring the purpose and nature from the type of transactions or business relationship established.

FATF also recommends that countries adopt a de minimis threshold for cross-border wire transfers, below which verification of the customer, and beneficiary information, is not required unless there is suspicion of money laundering or terrorist financing. This limit is suggested at USD/EUR 1,000 for occasional cross-border wire transfers.

Source: FATF, Guidance for a Risk-based Approach (2016). Available from www.fatf-gafi.org/media/fatf/documents/reports/Guidance-RBA-money-value-transfer-services.pdf.

2. Act on exclusivity clauses

One of the key recommendations to arise from dialogue with IOM and the Action stakeholders was the importance of prohibiting exclusivity agreements between RSPs and agents, and the ongoing enforcement of such a regulation.

Highlighting the importance of prohibiting exclusivity agreements is the example of the directive mandating RSPs to sign non-exclusive agreements in Ethiopia in 2006.⁸² This was arguably the single most important legislation in increasing the flow of formal remittances into Ethiopia in recent years. This is particularly given the limited options in terms of access points, which meant that exclusivity agreements resulted in a small number of agents controlling large networks and creating de facto local monopolies in several areas. This is a problem still faced by several ACP countries.

Box 7: Example of a private sector initiative to address foreign exchange controls and cost of remittances: Zimbabwe

BitFinance is the company dealing in Zimbabwe with Bitcoin transfers. This system is currently used daily by millions of people worldwide, particularly due to the negligible costs of the transfer fees (roughly 1%). Customers are mainly Zimbabweans that use it for payments or for collecting online payments but also the diaspora for remittances purposes. Bitcoin transfers are associated to systems such as Ecocash, Telecash or Netcash, that change Bitcoins into cash for an average commission of 2 per cent. In Zimbabwe, BitFinance has nearly 400 customers, recording a growth of 15 per cent each week. Some NGOs are also using this service for internal transfers for beneficiaries. While no specific regulations apply to BitFinance under the Exchange Control (Authorized Dealers with Limited Authority) Order, it is authorized and encouraged by the Reserve Bank.

3. Introduce letters of no objection and other proportionate responses to new technology cross-border

Given the recent entry of mobile-to-mobile money cross-border transactions, regulators have been understandably keen to observe how the market operates before issuing new regulations for this new service type. However, as box 8

82 National Bank of Ethiopia Directive No. FXD/30/2006, Provisions for International Remittance Services. Available from www.ethiopianembassy.it/pdf/int_remittance.pdf.

highlights, mobile money can represent a cheaper, more accessible option to traditional cash-to-cash international remittance services. A useful short-term approach, which provides regulators with the time needed to observe market dynamics, is to issue providers with “letters of no objection”. This can be critical to ensuring that the regulatory framework developed for new market segments is proportionate and fit for purpose whilst also ensuring safeguards are in place to protect consumers.

In both Kenya and the United Republic of Tanzania, this path has been followed, with success in both markets. In the United Republic of Tanzania, letters of no objection were issued by the Central Bank to partnerships between MNOs and banks.

This approach recognizes the value in creating an environment for innovation in financial services for the private sector through the provision of clear guidance, whilst giving the chance for regulators to observe the market and create formal legislation.

4. Analyse the potential of platform and cross-platform level interoperability cross-border

Research for the report has highlighted the potential of regional hubs – building intra-Africa rails/connectivity to help bring costs down. Service providers are increasingly using regional hubs as a faster route to building out payment networks for facilitating transactions on behalf of consumers. Through a hub, providers can enter new markets, terminate to multiple channels (for example bank account, eWallet, card and cash) and increase touchpoints through one simple integration.

It may also be possible to link the relevant domestic retail payment systems of sending and receiving countries, particularly where the domestic payment systems in both countries are well developed and have good geographical coverage and where remittance volume between the countries is high.⁸³

83 World Bank, Committee on Payment and Settlement Systems, General Principles for International Remittance Services (2007). Available from www.bis.org/cpmi/publ/d76.pdf.

Box 8: New technologies for international remittances

In recent years, new technology-driven solutions have changed the remittances market. Those that appear to be making the most difference to prices, efficiency and financial inclusion are online services and mobile services. Several businesses now offer online services at the first mile of the transaction. This provides senders with the option to make their transaction at their own convenience on the web portal of a money transfer company without the need to visit a location. Payment can be made by a debit card, bank account transfer or sometimes by using a credit card. This initiative removes the send agent (which can account for around 25 % of the cost of a remittance) and thus plays a major role in reducing prices.

Mobile, at the last mile, has predominantly grown in developing markets (particularly in Africa where nearly all the deployments have been made) and is currently being used as a paying out/disbursement method. Mobile also has the advantage of bringing more participants into the financial space by opening an electronic account.

A recent GSMA report found that mobile money-based international remittances have been the fastest-growing product by transaction volumes for the past two years. According to GSMA research there were at least 29 live cross-border mobile money remittance corridors connecting 19 countries at the end of December 2015. Mobile money is propelling greater competition, applying a downward pressure on the cost of sending money globally.

Not only does receiving remittances into a mobile wallet have the benefits of instantaneous transfers direct to a wallet, 24/7, but recent GSMA research found that using mobile money was, on average, more than 50 per cent cheaper than using global money transfer operators (MTOs). By undertaking mystery shopping in 45 country corridors, it was discovered the average cost of sending USD 200 using mobile money was 2.7 per cent compared to 6.0 per cent using global MTOs.

Source: GSMA, Driving a Price Revolution: Mobile Money in International Remittances (2016). Available from www.gsma.com/mobilefordevelopment/wp-content/uploads/2016/10/2016_GSMA_Driving-a-price-revolution-Mobile-money-in-international-remittances.pdf (accessed October 2016).

RECOMMENDATION 2 >>>>

IMPROVE DOMESTIC PAYMENTS INFRASTRUCTURE

Key challenges addressed

High remittance cost	
Lack of access in the receive market	
Lack of access in the send market	
Prevalence of informality	
Limitations in maximizing productive potential for remittances	
Coordination between Stakeholders	
Lack of accurate, and meaningful data	

Practical recommendations

Crucial to addressing several of the challenges outlined above, including cost and access to formal remittance services, is broadening the typology of formal channels that can be used to send and receive remittances, including postal networks and other relevant operators.

In this context, the use of new technologies such as mobile phones could be further promoted, as box 8 highlights. However, there is now significant evidence, from Consultative Group to Assist the Poor (CGAP), GSM Association (GSMA) and other bodies, that for cross-border mobile services to be well used consumers must already be using mobile payments for their everyday domestic financial needs. Until significant domestic use of these services is achieved, customer acquisition costs will be high for service providers and a likely barrier to launching any new cross-border service.

This section will outline potential approaches to creating an enabling environment on the domestic level, so that scale can be achieved and new cross-border payment services introduced.

1. Create an enabling regulatory framework for new technology at the domestic level

Adopt a risk-based approach to KYC for new technologies

As with cross-border transfers, adopting a risk-based, proportional approach to new technology means assessing individual transfers and the risks associated with them, and establishing a regulatory approach, particularly in the area of KYC, relative to those potential risks. Research for the report has found that the average transaction size for a mobile payment is USD 82, much less than the average for traditional international remittances (which is closer to USD 350). Given this marked difference in ticket size, the regulatory framework for mobile cross-border payments should be developed with these market dynamics in mind.

An example of where this has been implemented effectively is in the case of the United Republic of Tanzania where there are 13 million active accounts in 2014 and 38 million accounts in total. Details are outlined in box 9.⁸⁴

2. Support nationwide awareness/education campaigns

This will be required to ensure usage by receivers of remittances whose financial literacy levels may be limited. Furthermore, specific campaigns could be developed that target senders given their critical role as the initiator of the transaction. The perceived wisdom here is that the sender will educate their beneficiary on the value of using certain providers or service types based on the education that they have received.

84 Consultative Group to Assist the Poor, Infographic: Tanzania's Mobile Money Revolution. Available from www.cgap.org/data/infographic-tanzanias-mobile-money-revolution (accessed October 2016).

Box 9: Example of a proportionate regulatory framework for domestic mobile money transfers: United Republic of Tanzania

In line with the 2013 FATF guidance on AML/CTF and financial inclusion, which included the recommendation to introduce a tiered structure for CDD reflecting the relative risks of different transactions, the regulator in the United Republic of Tanzania has adopted a proportionate AML/CFT regime. Since only a quarter of people have national identification, customers often use voter registration cards to validate their identity. Other valid forms of ID include pension cards, employee cards and a letter from a village head for entry level accounts. Accounts are tiered, depending on whether a copy of the ID can be retained and verified by the provider; and whether the customer is a business or individual (see below). It is thought that flexibility in the type of ID required to set up a mobile money account has been instrumental in facilitating the uptake and usage observed in the Tanzanian market.

ACCOUNT TYPE	MAXIMUM TRANSFER SIZE	DAILY TRANSFER LIMIT	MAXIMUM ACCOUNT BALANCE	CUSTOMER DUE DILIGENCE REQUIREMENTS
TIER 1	TZS 1,000,000 (USD 615)	TZS 1,000,000 (USD 615)	3,000,000 (USD 1,845)	Customers shows ID to the agent
TIER 2	3,000,000 (USD 1,845)	5,000,000 (USD 3,075)	5,000,000 (USD 3,075)	Customers shows ID to the agent, who makes a copy that the providers stores
TIER 3	12,000,000 (USD 7,380)	50,000,000 (USD 30,750)	1,000,000,000 (USD 81,500)	Customers shows ID. Taxpayer Identification Number (TIN) and business licence to the agent, who makes copies that the providers stores

Sources: GSMA, Enabling Mobile Money Policies in United Republic of the United Republic of Tanzania (2014), and GSMA, State of the Industry Mobile Financial Services for the Unbanked (2014).

Note: For more information on FATF recommendations and financial inclusion, see *FATF, Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion (2013)*. Available from http://fatf-gafi.org/media/fatf/documents/reports/AML_CFT_Measures_and_Financial_Inclusion_2013.pdf

3. Support of use-cases as MFI payments and government payments paid out onto mobile phones

Leveraging government payments is a proven way of introducing financially excluded people to formal payments methods. If executed effectively, leveraging government payments for financial inclusion could also revolutionize the remittance market, by introducing low cost, instant and convenient termination points directly to the recipient's phone.

4. Increase reliable telephone network coverage in isolated areas

As discussed in Challenge 2 (Access to formal remittance services in both the send and receive markets), this is of critical importance, particularly in key target areas which currently lack access to financial institutions.

5. Support interoperability in the domestic payments systems where possible

Many mobile-based services operate on a closed loop basis whereby payments can only be made to another individual on the same network. Initiatives to achieve interoperability between different product providers should be considered to encourage growth across the entire market. In the case of the United Republic of Tanzania full platform level interoperability between mobile money providers has been achieved. It also has high agent level interoperability – with 52 per cent of the 166,000 mobile money agents serving multiple providers, compared to Kenya's 4 per cent. It should be noted that achieving interoperability does not come without concerns, both from a market risk and commercial perspective.⁸⁵ Stakeholder consultation and coordination is therefore essential to achieving the best possible outcome, as well as knowledge sharing between countries, and on regional and international levels.

6. Support the introduction of digital acceptance terminals, particularly in isolated areas

In many countries, non-cash payment services may be available only in urban locations. Lack of financial infrastructure at the domestic level (such as ATMs or POSs), particularly in rural areas, severely limits the ability of the RSP to offer digital payments in the third mile. This, in turn, means the benefits associated with digital payments, as discussed in section 3, challenge 2 (Access to formal

85 For a detailed assessment of interoperability in the United Republic of Tanzania, see GSMA, The Impact of Mobile Money Interoperability in Tanzania (2016). Available from www.gsma.com/mobilefordevelopment/wp-content/uploads/2016/10/2016_GSMA_The-impact-of-mobile-money-interoperability-in-Tanzania.pdf.

remittance services in both the send and receive markets), cannot be offered. Support in this area could include tax incentives, subsidies and grants, and data collection to demonstrate business potential as well as assisting with agent and consumer education. In most cases, financial support to businesses would be helpful in introducing services in areas where the business case may not be particularly attractive.

7. Support access to “bricks and mortar” financial services in rural areas

The example of IFADs work with post offices, where technical assistance was offered to targeted branches, secure call centres were established and marketing plans developed for the launch of services, provides a useful example of the potential support that could be offered in this area. Because of the IFAD project, money orders sent or received in the target areas rose by 104 per cent.

Box 10: Extension of international and domestic postal financial services, including remittance-related services, to rural areas of French-speaking countries in West Africa

The IFAD project seeks to increase the number of remittance recipients with access to financial services and promote small and medium-sized businesses. The project is focused on the extension of the UPU international electronic remittance service to rural postal offices and on the establishment of a link between remittances and postal account-based services. The target group of the project is represented by migrants and recipients of migrant remittances in rural areas of Benin, Burkina Faso, Mali, Mauritania, Niger and Senegal.

Outcomes

The project started by recruiting a regional project manager and conducting market research on each of the participating countries, including the geographic distribution of postal offices and the range of services offered. Cash flow management and accounting procedures were analysed in each country. Thus, configuration of the national postal payment services network was defined, and each of the six countries could develop a specific plan of action for the implementation of the project.

The UPU-developed International Financial System application was installed and connected in all of the six participating countries. In total, 453 post offices over the six countries have been equipped so far to deliver the UPU international electronic remittance service. Out of these, 355 are in rural areas. Postal processes, accounting and cash management procedures were organized and implemented in rural post offices of all six participating countries.

In parallel, the project developed integrated regional plans for the provision of technical assistance and created secure call centres connected to postal offices. Six marketing plans for the launch of services were prepared, and two regional workshops for launch of the services were held.

A series of cash-to-account/account-to-cash services were designed for the targeted post offices. The first pilot services were launched for the corridors Gabon–Burkina Faso and Gabon–Mauritania. At the project completion stage, 16 new cash-to-cash bilateral corridors had been opened.

The project reached completion in September 2010. Implementation of the new system resulted in a drastic reduction in transfer time – from two weeks to a maximum of two days – as well as a reduction in tariffs by 30 to 50 per cent. Consequently, money orders sent or received in the target areas rose by 104 per cent.

Most importantly, the project has triggered a chain reaction among incumbent private money transfer operators, pushing them towards an overall decrease in tariffs to stay competitive in the changing market.

8. Support RSP's onboarding and managing of agents

There are several recommended activities in this area. These include:

- Clear procedures for appointing agents.
- Investment in technology. In particular the development of interfaces between the agent and the money transfer operator or bank systems. In addition, assistance could be provided to help fund the computers, terminals and internet connections required to act as an agent.
- Staff training for banks in how to manage agents. Many banks consider that establishing and managing agents is highly complex and risky. Education programmes to address this would be beneficial.

RECOMMENDATION 3 >>>>

IMPROVE DATA COLLECTION ON REMITTANCES AND PAYMENTS SYSTEMS

Key challenges addressed

High remittance cost	
Lack of access in the receive market	
Lack of access in the send market	
Prevalence of informality	
Limitations in maximizing productive potential for remittances	
Coordination between Stakeholders	
Lack of accurate, and meaningful data	

Practical recommendations

The ACP-EU Migration Action Peer-to-Peer Exchange Meeting on Remittances brought together a variety of best practices and suggestions surrounding the practice of data sharing, which are outlined below.

1. Promote consistent methodologies across jurisdictions

In discussion with the Action, it was highlighted that establishing consistent methodologies across ACP countries for national level remittance data is essential. It was suggested the African Institute for Remittances (AIR) could play a role here. The importance of mandating banks, MTOs and MNOs to supply standardized data collection was also highlighted.

2. Create and promote opportunities to share data

Discussion with the Action has pinpointed several examples of where sharing data would be beneficial to facilitating the flow of remittances. These included:

- **Promoting the sharing of data between different government departments.** This was highlighted as essential given that different areas of government are not always aware of data that exists which limits coordination, inclusiveness and proportionate approaches to remittance policy. One such example of data sharing could be where law enforcement departments require companies to provide details on every transaction for anti-money laundering purposes. This data could be shared with the development departments (on a consolidated basis) or ministry of foreign affairs of the country concerned. This latter department could use this information to help implement policies that would encourage more remittances.
- **Allowing and promoting the exchange of macro-data with all stakeholders.** It is important for stakeholders such as new technology providers to have accurate data at a national level to make investment and marketing decisions. Without accurate data, opportunities may be missed. Italy provides a good example of data that is collected at a national level.

On an international level, initiatives such as “Finclusion Lab” – which integrates and maps national and subnational financial services access points for financial service providers, market developers and government agencies, could be promoted and developed further.

Supporting and promoting other initiative such as the Monito/Tawipay’s Global Remittances Observatory and the World Banks RPW database, which monitor and track remittance service providers and prices in multiple corridors, is also important. If information from initiatives such as these are promoted and shared among private sector stakeholders, as well as political institutions, NGOs, national governments, international organizations, think tanks and universities, there is the potential to not only increase transparency and competition in the market, but also to improve policy design. Such databases can also help to monitor when prices in certain countries rise above a certain level, or the number of operators fall quickly, aiding quick reactions to crises.⁸⁶

86 For more information on the initiatives, see Monito and *Remittance Prices Worldwide*. Available from www.monito.com and <https://remittanceprices.worldbank.org/en>.

3. Create opportunities to share best practice in data collection, particularly methods to measure informal flows

In discussions carried out in the framework of the Action, it was recognized that obtaining information on informal remittances was a significant challenge and that the main tool that could be used was household surveys in the country that the remittance was sent to. Previous World Bank surveys in Kenya, Uganda and Ethiopia were sighted as good examples of this practice. However, it was also emphasized that knowledge and best practice sharing within this is essential, as challenges such as bias sampling techniques, resistance to answering direct questions, and issues such as gender-sensitivity have all arisen during previous household surveys. Given these challenges, one suggestion was also to follow FinScope's approach, which used a combination of surveying techniques and other forms of data.

4. Map access points so that a comprehensive picture is obtained on where funds can be collected

To facilitate the improved access to formal services, particularly to those in rural and remote areas, a more detailed understanding of which geographic regions need targeting is required. Mapping current and potential access points and combining this with a nation-wide household survey focusing on remittance receivers would be one way to achieve this. The information would enable efforts to be made to increase representation in certain regions, and ensure the productive use of funds within them. Several ministries would be required to work closely together within the government – including planning commissions, ministries of finance and statistics agencies. Capacity-building may also be essential to effectively carry out such an activity in ACP countries.

5. Utilize the power of social media

In the P2P Exchange Meeting, the power of social media in providing new types of data in very large volumes was emphasized. With the large amount of data now available through social media, it was argued that this mass information can be used at an aggregate level to predict behaviour, identify trends, and help law enforcement. However, there has been limited work in this space as far as remittances are concerned.

RECOMMENDATION 4 >>>>>

INCREASE TRANSPARENCY

Key challenges addressed

High remittance cost	
Lack of access in the receive market	
Lack of access in the send market	
Prevalence of informality	
Limitations in maximizing productive potential for remittances	
Coordination between Stakeholders	
Lack of accurate, and meaningful data	

Practical recommendations

1. Communication/awareness generating tools, such as leaflets and community campaigns

The provision of community-focused communication tools has been effective in educating specific groups on services available to them for sending remittances cheaply and safely. These can be effective to disseminate at community events and this approach has been adopted by the private sector for several years to market their services at the below-the-line level.

2. Introduce disclosure of fees and enhance regulatory framework for transparency

The Dodd-Frank legislation in the United States, the Payment Services Directive and Electronic Money Directive within the EEA all mandate that service providers must be transparent on the total costs of remittance services. The provision also requires that costs are clearly signposted at transaction initiation points.

Whilst such approaches seem relatively straightforward, many countries do not actively enforce this type of consumer protection legislation. There is a role for international organizations to build the capacity of regulators in this regard to

ensure that service providers are mandated to be transparent about the costs of services, allowing consumers to make informed choices as to which service they choose.

Clear regulation on transparent fees should also be accompanied by effective customer complaints and recourse processes. These should be in place at both the service provider level and at a national level, meaning should a customer require it, there is a clear recourse process that allows them to hold their service provider to account, in the instance that their rights as a consumer have been breached in some way.

3. Support the development of price comparison websites and develop new methodologies and partnerships to collate real-time data in remittance corridors

Price comparison portals can also be an effective way, particularly where legislation is not in place to enforce disclosure of money transfer costs, to educate consumers as to the total cost of services they use to send money to friends and family.

Such portals require extensive marketing and outreach budgets to ensure consumers are aware of their existence and actively use them.

Given these cost considerations, such portals can also be used to disseminate other development-related content that aims to improve access and use of formal financial services more broadly amongst the target demographic group.

Send Money Pacific offers a useful example of how such a site can be developed and managed, alongside what the impact can be on overall market pricing, when the consumer-base is informed on the range of services and their relative prices within a given market. See box 12 for more details.

Monito is also an example of a real-time price comparison website, which could be supported and developed further.

**Box 11: Example initiative to improve transparency:
The National Bank of Ethiopia (NBE)**

In 2006 the NBE (National Bank of Ethiopia) passed the Remittance Service Providers (RSPs) directive, which aimed to improve the operations of the formal remittance system in Ethiopia by reducing the cost of and increasing the access to remittances. As part of this, it strove to enhance competition among RSPs by requiring disclosure of fees charged. This was then posted on the NBE website, although it does not appear to have been updated since 2008.

Source: International Organization for Migration, Baseline Assessment, Ethiopia.

Box 12: Initiative to improve transparency: Send Money Pacific

www.sendmoneypacific.org is a joint Australian and New Zealand Government-led initiative which began in 2008 as part of the “Reducing the Cost of Remittances to the Pacific” project. It is developed and managed by Developing Markets Associates Ltd.

The website provides important information on the many choices migrants living in Australia, New Zealand and the United States of America have when sending money back to their families and friends in the South Pacific island nations of Fiji, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.



Impact

When SMP launched nearly eight years ago, remittance costs to the Pacific were amongst the highest in the World. SMP has played a key role in informing the region on cost and product information and has helped to educate Pacific remitters about new innovative, digital options, helping to drive lower costs in the region. By mid-2015, MTO costs had fallen by 54 per cent from Australia to Fiji (a fall in total cost from AUD 35.98 to AUD 16.47 for AUD 200 transfers), and by 57 per cent from New Zealand to Tonga (from NZD 32.50 to NZD 13.97 for NZD 200 transfers). Since its launch in early 2009, a wide-ranging marketing and awareness campaign has ensured that SMP has become an established household name for many Pacific islanders. Today, over 116,000 Pacific people follow SMP on Facebook.

RECOMMENDATION 5 >>>>

INTRODUCE INCENTIVES FOR LOWERING COSTS OF REMITTANCES

Key challenges addressed

High remittance cost	
Lack of access in the receive market	
Lack of access in the send market	
Prevalence of informality	
Limitations in maximizing productive potential for remittances	
Coordination between Stakeholders	
Lack of accurate, and meaningful data	

Practical recommendations

A useful example of a short-term solution for encouraging the use of formal remittances is the Pakistan Remittances Initiative (PRI). The initiative offers price incentives to consumers, through service providers. The initiative has been highly successful for the Pakistani market, however its effectiveness is in part driven by a broader strategy to formalize the remittance market to Pakistan, as well as to reduce costs and therefore should not be taken as a standalone policy. In addition, its effectiveness in the long-term is questionable given the high cost to the government for maintaining the scheme. For these reasons, it may not be appropriate for all ACP countries. Box 13 provides more detail on the PRI.

Box 13: Pakistan Remittances Initiative

The Pakistan Remittance Initiative (PRI) was launched in August 2009 as a joint initiative between the State Bank of Pakistan, Ministry of Overseas Pakistanis and Ministry of Finance with two specific objectives:

- a Facilitating and supporting the faster, cheaper, convenient and efficient flow of remittance through formal channels;
- b Creating investment opportunities in Pakistan for overseas Pakistanis.

It is a multifaceted approach which includes:

- Enhancement of outreach – Focus on bilateral arrangements creating a separate efficient remittance payment highway based on developing formal links with financial institutions abroad (from less than 20 to over 400).
- Enhancement of distribution channels – Including improving the service of post office and microfinance banks and identification of remittance-rich areas. In total it has added as many as 10,000 physical locations in Pakistan for receiving remittances.
- Improvements in Payment System Infrastructure – Instrumental in improving the payment systems such as cash over the counter and inter-bank settlements.
- Innovative Remittance Products – PRI provides advisory services to banks for introducing innovative remittance products such as cards and internet-based remittances.
- Prize incentives – The government in 2009 announced reimbursement of the marketing expenses to banks for the attraction of remittances.
- Pre-departure briefings – Remittance briefing sessions at Protectorate Offices for capturing potential overseas Pakistanis and for opening bank accounts before leaving the country.
- Training Programmes.

Impact

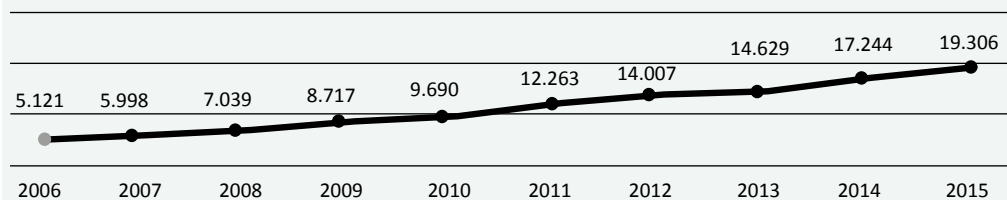
- Created more than 360 formal links with financial institutions abroad (from less than 20 to over 400);
- Added as many as 10,000 physical locations in Pakistan for receiving remittances – bringing in new players (commercial banks, microfinance banks, exchange companies, Pakistan Post);
- Reduced remittance delivery time;

- Reduced cost – average cost in Q3 2016 for sending to Pakistan was 4.7 per cent – almost half the global average. This included 4.12 per cent from the UK, 2.31 per cent from the United Arab Emirates and 3.44 per cent from Saudi Arabia.

Home remittances to Pakistan witnessed phenomenal growth in recent years. According to the World Bank, remittances rose from USD 5.121 million in 2006 to USD 19,306 million in 2015 – an almost four-fold increase in less than 10 years. Research has shown that even considering the growth of the Pakistani diaspora over the same period, the increase in remittances surpasses the organic rate of growth. For example, only 70 per cent of the overall growth of 230 per cent in the volume of remittances can be explained by the increase in number of workers.

A careful look at flows from individual countries shows that the increase in official remittances was most marked in the UK's case, where it increased from USD 605 million in 2008/09 to USD 1.5 billion in 2011/12. There was also a significant increase in Saudi Arabia and the United Arab Emirates, where aggressive marketing by Pakistani banks taking advantage of the PRI's financial incentives helped to divert remittances toward official channel.

Figure 12:
Value of formal remittances to Pakistan (USD million) 2006–2015



Source: World Bank, 2016.

Concluding remarks

The multifaceted approach taken by Pakistan has reduced the cost and increased the value of remittances. Given that Pakistan has achieved this while facing similar barriers to Ethiopia in terms of a parallel exchange rate and traditionally high rates of irregular migration, partially to the GCC, this programme should be of note to Ethiopia.

RECOMMENDATION 6 >>>>

IMPROVE IRREGULAR MIGRANTS' ACCESS TO FORMAL REMITTANCES

Key challenges addressed:

High remittance cost	
Lack of access in the receive market	
Lack of access in the send market	
Prevalence of informality	
Limitations in maximizing productive potential for remittances	
Coordination between stakeholders	
Lack of accurate, and meaningful data	

Practical recommendations

1. Improve irregular migrants' access to formal remittances by addressing the issue of identification

The acceptance of identification which is not linked to the immigration status of a potential remittance customer would have the largest impact on enabling those who are forced to use informal remittances to be able to use formal services. Whilst the proposal appears simple it is acknowledged that achieving bilateral agreements with host countries on this matter can be extremely challenging. The only example where an innovative solution has been found to this situation is the *Matrícula Consular*, introduced by the Mexican government, and permitted by the United States to act as a form of identification for accessing financial services (see box 14).

Box 14: Example of improving access to the remittance market: Matrícula Consular card

The Matrícula Consular de Alta Seguridad (MCAS) (Consular Identification Card) is an identification card issued by the Government of Mexico through its consulate offices to Mexican nationals residing outside of Mexico. Also known as the Mexican CID card, it has been issued since 1871. The issuing of the card has no bearing on the immigration status in the foreign country that the migrant is residing in. The purpose of the card is to demonstrate that the bearer is a Mexican national living outside of Mexico. It includes a Government of Mexico-issued ID number and bears a photograph and the address outside of Mexico of the Mexican National to whom it is issued. The Matrícula Consular can be issued by one of 46 Mexican consulates in the United States.

After the 9/11 attacks on the USA many banks and financial institutions reviewed their processes for identifying customers and there were concerns that this would lead to greater restrictions on who could send remittances home to Mexico. The United States PATRIOT Act was passed and among its many items, it allowed financial institutions to accept the Mexican Matrícula Consular card which enabled financial institutions to serve unbanked immigrants who live and work in the United States. According to the Government of Mexico, an estimated 4 million Matrícula Consular cards were issued in the United States between 2001 and 2004.

As an example of the effectiveness of using this form of identification, Wells Fargo opened more than 400,000 new accounts for Mexican immigrants using the Matrícula Consular card between November 2001 and May 2004. It also allows customers to access the bank's InterCuenta Express, an account-to-account wire transfer service. According to the Government of Mexico, 178 banks in the United States accept the Matrícula Consular card to open bank accounts.

Without the regulation to assist in this area then a significant number of large sums would be transferred informally.

Source: Federal Deposit Insurance Corporation. Available from https://fdic.gov/regulations/examinations/supervisory/insights/siwin04/latino_mkt.html

2. Promote formal routes of migration

In the long term, increasing and promoting formal routes of migration, including creating bilateral agreements with governments and awareness among migrants, will be essential to supporting the flow of formal remittances. Actions to consider on this topic include:

- Generating awareness and information provision for migrants prior to their departure concerning their options for transferring money home;
- Instructions on opening a bank account; and
- Awareness the dangers of irregular migration and trafficking.

The Government of the Philippines has undertaken a few initiatives in this area which could be relevant to supplement the progress that governments in the ACP have already taken. See box 15 for further information. It will also be important for select receive countries to work with select send countries to create possible amnesties for irregular migrants so that they may be able to regulate their status.

Box 15: Commission on Filipinos Overseas

The Philippines Government established the CFO in 1980. It undertakes many functions as can be seen from the 10 goals listed below. The goals cover:

A. Policy advocacy

1. To advocate for coherent, coordinated and clear development policies to be mainstreamed in the policymaking process of government: on international migration, its cost-benefit implications and the need for both national and local governments to maximize migration's gains while minimizing its socioeconomic costs, that while international migration is a reality, governments must create an environment that would make migration an option rather than a matter of necessity and that the government's primary responsibility remains focused on sustainable, integrated, equitable, nation-wide development taking into consideration the country's economic, political and social structural problems and issues especially in relation to employment, poverty alleviation, equitable distribution of wealth and the benefit of development and improvement of all its citizens' quality of life.
2. To support and strengthen a favourable rights-based policy environment for the promotion and protection of rights, welfare and status of overseas Filipinos; to assist in the formulation and implementation of policies and programmes relevant to their rights, welfare and status.

B. Socioeconomic development

3. To develop and implement, in coordination with and with the support of other government agencies, a streamlined and facilitative entry and directional process for "development assistance" in the form of resources, knowledge, skills and technology from Filipinos overseas, that will be strategic and responsive to existing development issues and needs of the country and will optimize the assistance's development potentials.
4. To provide mechanisms for various stakeholders to coordinate, forge partnerships, upscale and leverage diaspora funds (for example, remittances and savings) and investments, broaden donors' and investors' base and replicate best practices especially in financial literacy, microfinance and social enterprises, to make these funds more effective tools for the country's development and economic growth.

C. Integration and reintegration

5. To assist in the integration of migrating Filipinos in their host countries by educating them on the realities of international migration, preparing them to meet the practical, cultural and psychological challenges attendant to migration and providing them other services as may be developed and needed, mindful of the social costs of migration to the overseas Filipinos themselves (especially for the women who are most vulnerable to abuse, discrimination and exploitation), to the families (especially the children) they have left behind and to their local communities.
6. To assist in the productive and seamless reintegration of returning overseas Filipinos and their families in the country, recommending policies, programmes and measures to transform brain drain to brain gain, to enhance the returnees' earning capabilities and for better incentives for overseas Filipinos to return, to retire and to invest.

D. Culture and education

7. To ensure that Filipinos overseas remain rooted in their Filipino culture by developing, implementing, promoting and coordinating with other institutions, global awareness and appreciation of Filipino language, culture and heritage.

E. Institutional development and organizational strengthening

8. To promote the leading role of CFO on the formulation of policies and in addressing key issues on migration and development.
9. To improve and enhance CFO's institutional capabilities for lobbying and advocacy for policy-setting, formulation and reform; in coordinating and building consensus with all migration-related government agencies on issues/policies/programmes of major concern and critical to overseas Filipinos; and mobilizing stakeholders in the migration and development sector, especially for regular multi-stakeholder consultations and collaboration.
10. To provide accurate, timely and comprehensive data on international migration of Filipinos through linkages with government agencies and other stakeholders essential for policy formulation and protection of overseas Filipinos.

RECOMMENDATION 7 >>>>

USE REMITTANCES AS A TOOL FOR FINANCIAL INCLUSION

Key challenges addressed

High remittance cost	
Lack of access in the receive market	
Lack of access in the send market	
Prevalence of informality	
Limitations in maximizing productive potential for remittances	
Coordination between stakeholders	
Lack of accurate, and meaningful data	

1. Leverage remittances for financial inclusion

Given the low average remittance values that are sent and the low levels of financial inclusion, a significant focus on leveraging remittances as a tool for financial inclusion for low-income recipients is required. This is particularly important as in some instances collecting remittances may be one of the only forms of access a remittance recipient has for formal financial services. This creates a significant opportunity for financial education, as well as the potential to introduce remittance-backed and remittance-linked products.

The importance of financial education and awareness of available products was a key theme during discussions with the IOM. It was suggested that this should go beyond products available to include budget and savings tools, with an emphasis placed on the potential of mobilizing informal savings that already exist. One way to do this is to use the remittance payout locations as “education centres” for financial services. The example of the EBRD’s work in Tajikistan is perhaps the most relevant and demonstrates the potential for remittance

recipients to save (see box 16). Other examples – such as the *Xuu Ñuu Ndavi* (Money of the Poor People) microfinance bank in Mexico – demonstrate the potential of remittances to be used as investments at a small scale.

There can also be opportunities to undertake financial education training with remittance receivers to encourage them to use remittances for investment purposes. The International Fund for Agricultural Development has run a number of effective programmes in this area. A good example is shown in the attached link, which demonstrates how a wife who receives money from her husband was able to set-up a small fish farm and is now earning significant profits from it, which may enable her husband to return home more quickly (see www.youtube.com/watch?v=LU0FGbwzgNE). A further example can be seen at www.youtube.com/watch?v=N5WfKuI0iC4. Leveraging remittances and financial inclusion in this way provides strong development returns.

Box 16: Best practice – Facilitate diaspora investment: financial education in Tajikistan

A financial inclusion project supported by The European Bank for Reconstruction and Development and the multi-donor Early Transition Countries (ETC) Fund was set up for remittance recipients. The objective was to provide remittance recipients with financial advice to enable them to access banking services. Tajikistan is a market that is highly dependent on remittances. It is also a market where remittances can only be collected at a bank branch.

Individual 20-30 minutes financial education sessions were provided when people visited bank branches to receive their remittances. Over a 10-month period the project provided financial advice to 43,000 people, surpassing the goal of 20,000. Approximately 15 per cent (6,450 people) opened bank accounts. The average balance maintained in the accounts was USD 1,800.

This project model has been replicated in other contexts with good results. Its main contribution is to prove to banks that remittance recipients are attractive customers and that the business model works.

This link shows a video that covers a similar project in Armenia: www.ebrd.com/news/video/promoting-financial-inclusion.html.

**Box 17: Best practice – Facilitate diaspora investment:
MicroFinance Institutions (MFIs) in Mexico**

In Mexico, one successful microbank, Xuu Ñuu Ndavi (Money of the Poor People), operates in the Mixteca region in Oaxaca. Many residents in this indigenous town have relatives living abroad who remit money home through the microbank. Of the USD 170,000 received in remittances after the first year of operation, the microbank's 168 members, including 83 women, accumulated USD 160,000 in savings. The experience of this bank demonstrates that remittance-receiving households have a propensity to save, and to do so in financial institutions. Key to the success of this and similar microbanks is their level of trust with the local population.

Source: UNDP.

RECOMMENDATION 8 >>>>

ENCOURAGE INFORMAL INTO FORMAL AND ENGAGE THE INFORMAL SECTOR

Key challenges addressed

High remittance costs	
Lack of access in the receive market	
Lack of access in the send market	
Prevalence of informality	
Limitations in maximizing the productive potential of remittances	
Coordination between stakeholders	
Lack of accurate and meaningful data	

Practical recommendations

1. Consider regulatory approaches to bring informal operators into the formal sector

FATF Special Recommendation VI states that:

Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions.

Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.⁸⁷

However, it is important to note that there is significant debate around the benefits of a complete enforcement of the FATF guidelines for those sending and receiving remittances. For example, the informal systems can play an important role in providing financial services to the underserved who cannot access regular formal remittance providers.

This once again highlights the importance of a multi-faceted approach to improving the flow of remittances. Coordination and stakeholder engagement is also important. Maimbo (2004) recommends, for example, that well-organized communities with clear objectives and money transfer mechanisms be invited to discuss their regulatory and supervisory mechanisms, and if deemed adequate, invited to complement the efforts of an external regulatory agency. Providing incentives for informal providers to be licensed is also an option.

2. Strengthen and clarify rules in legal and judicial frameworks

In Afghanistan, for example, the challenge of regulating an informal system with a long history of independence and self-regulation in an environment where incentives for compliance are limited by the weakness of the legal and judicial framework for the prosecution of financial crimes is self-evident.⁸⁸

3. Outreach to diaspora countries is an important activity

The P2P Exchange highlighted that diplomatic missions to their diaspora in the relevant countries is an important activity in moving flows from informal to formal sector. Specific recommendations included providing information with passports in order to educate migrants on the dangers of sending money informally.

87 Special Recommendation VI (FATF SP. IV), as cited by Maimbo, *The Regulation and Supervision of Informal Remittance Systems: Emerging Oversight Strategies* (2004). Available from www.imf.org/external/np/leg/sem/2004/cdmfl/eng/maimbo.pdf.

88 Special Recommendation VI (FATF SP. IV), as cited by Maimbo, *The Regulation and Supervision of Informal Remittance Systems: Emerging Oversight Strategies* (2004). Available from www.imf.org/external/np/leg/sem/2004/cdmfl/eng/maimbo.pdf.

RECOMMENDATION 9 >>>>

IMPROVE COORDINATION AMONG STAKEHOLDERS

Key challenges addressed

High remittance costs	
Lack of access in the receive market	
Lack of access in the send market	
Prevalence of informality	
Limitations in maximizing the productive potential of remittances	
Coordination between stakeholders	
Lack of accurate and meaningful data	

Practical solutions

1. **Raise awareness of the added value of migrants' activities in terms of investment**

Discussions with the Action underlined the importance of using concrete and measurable examples to demonstrate what works and the importance to long term sustainable development. Data collection was seen as essential to this. Creating a database of best practices and experiences was also suggested.

2. **Enhance collaboration and build connections**

Suggestions as to how to improve collaboration include:

- **Promote knowledge-sharing through events and forums** – see box 18 for an example in Ethiopia;
- **Create focal points in key federal ministries and agencies** which focus on remittances and diaspora investment (see box 18).

**Box 18: Best practice – Promoting stakeholder coordination:
Ethiopia**

The most important government stakeholder is the Ministry of Foreign Affairs, which houses the Diaspora Engagement Affairs Directorate, and is the main stakeholder in diaspora affairs. Diaspora Coordinating Offices, which have been established in each of the nine regions and two city administrations, bring this coordination to a regional level. There are also diaspora focal points in key federal ministries and agencies, such as the Ethiopian Investment Commission, and the Ethiopian embassies. The Joint Consultative Forum provides routine organization by bringing together the relevant stakeholder in diaspora engagement on a semi-annual basis.

Recommendations

overview >>>>

RECOMMENDATION	KEY CHALLENGES	RECOMMENDED ACTIONS
1. Create an enabling regulatory framework for cross-border payments	- High remittance costs; - Lack of access in the receive market; - Prevalence of informality; - Limitations in maximizing productive potential for remittances.	1 Adopt a proportional approach to regulating remittances, recognizing the relative risks involved. This requires understanding the challenges involved with cross-border transfers while also recognizing the importance of facilitating productive remittance flows through formal channels; 2 Take action on Exclusivity Clauses; 3 Introduce letters of no objection and other proportionate responses to licensing new technology cross-border; 4 Analyse the potential of platform and cross-platform level interoperability cross-border.
2. Improve domestic payments infrastructure and access, particularly in relation to new technologies	- High Remittance Costs; - Access to formal remittance services in both the send and receive markets; - Prevalence of Informality; - Limitations in maximizing productive potential for remittances.	1 Create an enabling regulatory framework for new technology at the domestic level, including adopting a proportionate approach to licensing and a risk-based approach to KYC for new technologies; 2 Support nationwide awareness/education campaigns; 3 Support use-cases such as MFI payments and government payments paid out onto mobile phones; 4 Increase reliable telephone network coverage in isolated areas; 5 Support of digital acceptance terminals, particularly in isolated areas; 6 Support interoperability in the domestic payments systems where possible; 7 Support access to “bricks and mortar” financial services in rural areas.
3. Improve data collection on remittances and payments systems	- High remittance costs; - Lack of access in the receive market; - Prevalence of informality; - Limitations in maximizing productive potential for remittances; - Lack of accurate data.	1 Promote consistent methodologies across jurisdictions; 2 Create and promote opportunities to share data; 3 Create opportunities to share best practice in data collection, particularly methods to measure informal flows; 4 Map access points so that a comprehensive picture is obtained on where funds can be collected; 5 Utilize the power of social media.

RECOMMENDATION	KEY CHALLENGES	RECOMMENDED ACTIONS
4. Increase transparency	- High remittance costs; - Lack of access in the receive market; - Prevalence of informality; - Limitations in maximizing the productive potential of remittances; - Lack of accurate data.	1 Communication/awareness generating tools, e.g. leaflets, community campaigns; 2 Introduce Disclosure of Fees and Enhance regulatory framework for transparency; 3 Support the development of Price Comparison Websites and develop new methodologies and partnerships to collate real-time data in remittance corridors. Introduce Financial literacy apps.
5. Introduce incentives or lowering costs of remittances	- High remittance costs.	1 A short-term solution for encouraging the switch to formal remittances could be to follow the Pakistan Remittances Initiative (PRI)^a lead in offering price incentives to lower the cost of remittances.
6. Improve irregular migrants access to formal remittances	- Access to formal remittance services in both the send and receive markets; - Prevalence of Informality; - Limitations in maximizing productive potential for remittances.	1 Improve Irregular Migrants Access to Formal Remittances by Addressing the Issue of identification; 2 Promote Formal Routes of Migration.
7. Use remittances as a tool for financial inclusion	- Limitations in maximizing productive potential for remittances.	1 Facilitate remittance investment opportunities through promoting financial inclusion and duly regulated products and services for remittance senders and receivers.
8. Encourage informal into formal and engage the informal sector	- Prevalence of Informality; - Limitations in maximizing productive potential for remittances.	1 Consider regulatory approaches to bring informal operators into the formal sector; 2 Strengthen and clarify rules in legal and judicial frameworks; 3 Outreach diaspora programmes—diplomatic missions to reach diaspora in the main send countries is an important activity in moving flows from informal to formal sector.
9. Improve coordination among stakeholders	- Across all barriers.	1 Raise awareness of the added value of migrants' activities in terms of investment; 2 Enhance collaboration and build connections.

6

CONCLUSION

Conclusion

Remittances and their impact on micro, meso and macrolevels are crucially important to many ACP States, which include countries with some of the highest remittance dependency ratios in the world. The IOM Baseline Assessments have demonstrated that several ACP countries rely on remittances as one of the primary sources of foreign exchange, investment funds, and sources of income during humanitarian crises. They also play a key role in the day to day living expenses of some of the poorest and most vulnerable people in ACP countries.

Given this, there has been increasing weight given to international remittances within the global policy agenda. In 2011, the G8 committed to reducing the global average cost of sending remittances from 10 per cent of the send amount to 5 per cent in the following five years – the “5x5” objective, and in 2014 the G20 Development Working Group on Financial Inclusion and Remittances adopted a Plan to Facilitate Remittance Flows. Several international organizations have also run projects to improve the flow of formal remittances and their impact on development in ACP countries, including the EU, IFAD, IADB, World Bank and African Development Bank.

However, despite the increased international focus, remittances to ACP States still face multiple challenges. Research for this report found that the cost to send money through formal channels is significantly higher to ACP States than the global average, and include some of the most expensive regions and corridors in the world. Financial access points, both in terms of traditional financial services such as bank branches and MFI branches, and digital infrastructure such as POSs and ATMs, remain very low in many countries, particularly in rural areas. This severely limits many remittance receivers’ choice of service, as well as increasing the indirect costs of reaching formal services. ACP countries also face a challenge because of restrictions which prevent undocumented migrants from accessing formal remittance services in certain send countries.

Given these challenges, it is perhaps unsurprising that estimates suggest that informal remittances are at least as high as formal in many of the countries studied for the IOM baseline assessments, with some figures placing it as high as 70 per cent.

Added to this, the baseline assessments and other research demonstrated that (on average) remittances to most ACP countries are low value with a large proportion spent on household consumption. This, combined with low levels of financial inclusion, represents a significant barrier for those wishing to save and invest their remittances, as well as a barrier to development more broadly.

However, the report has also demonstrated that there are several practical solutions that can be undertaken by ACP countries, and many successful global initiatives, including in ACP States. Recommendations in this report include:

- 1 Create an enabling regulatory framework for cross-border payments;**
- 2 Improve the domestic payments infrastructure;**
- 3 Improve data collection on remittances and payments systems;**
- 4 Improve transparency;**
- 5 Introduce incentives for lowering the costs of remittances;**
- 6 Improve irregular migrants' access to formal remittances;**
- 7 Use remittances as a tool for financial inclusion;**
- 8 Encourage informal into formal and engage the informal sector;**
- 9 Improve coordination among stakeholders.**

Many of these recommendations address multiple barriers, and global examples have shown them to be effective in facilitating the flow of remittances, facilitating financial inclusion, and, in turn aiding the productive potential of remittances.

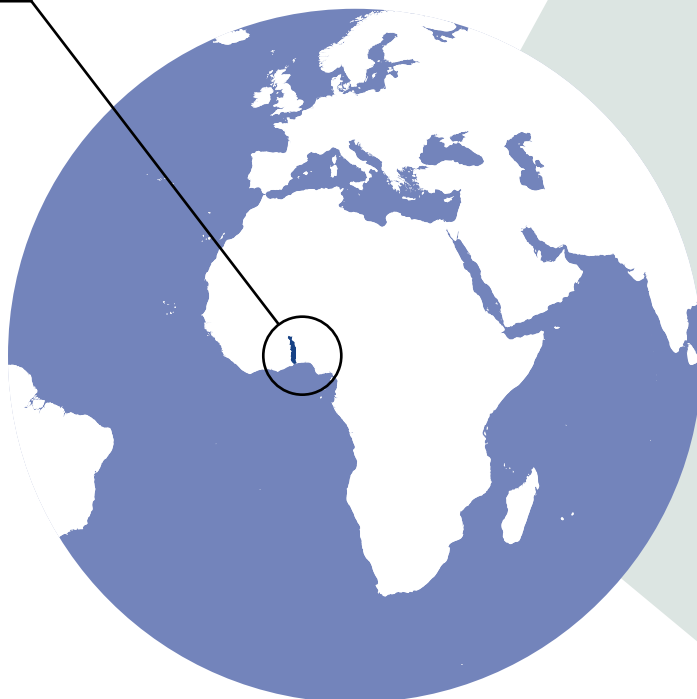
ANNEX I

Country fiches

This annex includes an overview, in the form of a fiche, for each country where a remittance-related technical assistance has been given or requested and approved by the Action to date.

Togo

Develop a database to support and analyse migrant remittances in Togo



Key objectives

To develop a database to monitor and analyse migrant remittances in Togo.

To establish mechanisms to facilitate the transfer of funds to encourage more Togolese in the diaspora to contribute to the development of their country of origin.

To mobilize and engage the diaspora in the socioeconomic development of the country.

Togo needs data to set up mechanisms for the capitalization of remittances transferred by Togolese from abroad.

Assistance in setting up a system for collecting and processing data on remittances to control not only their volume, their origins, and their use, but also to enable the authorities to develop tools to promote productive investments by migrants and thus help beneficiary families maximize their impact.

Challenges identified

The resources and potentialities of the Togolese diaspora are still insufficiently valued for the country due to multiple constraints including: a real lack of understanding of their sociogeographic, socioprofessional and socio-economic characteristics, and the lack of organization, in particular with regard to the associations of nationals and members of brotherhoods in the host countries.

The low level of information provided by Togolese people about structures, procedures, and business opportunities. No positive measures have been put in place to capitalize the flows of international remittances outside the Banque Centrale des Etats de l'Afrique de l'Ouest [Central Bank of West African States] (BCEAO) instruction banning the exclusivity clause in West African Economic and Monetary Union member countries.

The environment for developing a database to control and capitalize Togolese remittances from outside is not sufficiently established in Togo. This concerns mainly the existence of a national migration policy; a strategy for mobilizing the Togolese diaspora; a pro-active, managed and operational framework that is sufficiently equipped to control and capitalize the resources of the Togolese diaspora; financial products that can promote the use of formal channels and channel migrant funds to priority sectors for the development of Togo; and the lack of an instrument and tool to capture informal transfers and direct them towards community development.

Several actors intervene in the field of migration and development in Togo. Only the BCEAO collects and disseminates data on remittances from migrants. The other actors have no resources to do so. The BCEAO, however, only captures data transiting through official channels.

The Directorate of Togolese in the Diaspora is not sufficiently proactive as an institution with the Togolese diaspora. The National Institute of Statistics and Economic Studies and Demographics (INSEED), in terms of statistical management in Togo, does not have this data.

The Committee for Coordination and Monitoring of Activities on Migration and Development in Togo is only an orientation framework and not an operational framework.

A major challenge in setting up this database is the collection of data on remittances flowing through informal channels.

Recommendations

In the absence of more recent data on transfers of funds and their uses in Togo, a household survey is recommended for collecting the first data to be put in the database to be developed.

In addition, this survey will also identify users of this database and ask them about the information they wish to obtain from this database. This part of the survey will determine not only the database management system model but also the related software.

In order to gain the support of the largest number of Togolese emigrants, it is recommended to ensure wide dissemination of the policy, strategy, mobilization programme, instruments and all that will be put in place to mobilize and capitalize on diaspora resources.

It is necessary to carry out reflections to put in place tools that can capture informal transfers. These include promoting collective remittances to aid community development. Another approach is to provide services to remittance recipients and providers. This may include training in the culture of savings, credit and entrepreneurship.

KENYA

Development of a digital remittance booklet



Key objectives

To develop a digital booklet that will inform Kenyans in the diaspora on affordable remittance channels as well as investment opportunities in Kenya.

To provide an overview of the state of affairs in the requesting country on the specific subject of the request.

To identify the major stakeholders amongst Government and NSAs, and to offer input and guidance to fine-tune the technical assistance intervention.

Challenges identified

Information on emigrant Kenyans is incomplete, which means the profile of the diaspora is not exactly known.

Administrative challenges which inhibit proper provision of consular services and the lack of a policy framework that is responsive to diaspora needs. Also, a lack of administrative structures and mechanisms for the Government to tap (leverage) directly into foreign remittance inflows from the diaspora as an asset for investment and national development.

A lack of clear structures and avenues to facilitate the Kenyan diaspora to play a proactive participatory role in the promotion of tourism.

No proper documentation of the intellectual resources possessed by the Kenyan diaspora. As such, the Government is unable to attract qualified and skilled human resources from the diaspora community which inhibits technology transfer.

A lack of bilateral agreements that would facilitate the transfer of social security savings to Kenya upon return of Kenyans from the diaspora.

Lack of information about what is going on in Kenya; corruption; insecurity; bureaucratic and administrative processes; fraud and lack of trust; lack of a diaspora policy; high costs of remittance transfers and immigration challenges.

High remittance costs. Stakeholders almost unanimously mention the high costs of sending money. As of the fourth quarter of 2015, remittances costs are still the highest in sub-Saharan Africa with an average of 9.53 per cent; in 2016 costs decreased to around 8 per cent.

Lack of information on remittance options. Many Kenyans in the diaspora still use bank transfers or well-known MTOs, as they are not aware of the existence of an increasing number of cheaper, faster and reliable channels that use innovative (web- and mobile wallet-based) technologies.

The limit of sending money to Kenya through MTOs, which according to some stakeholders is set at around USD 1,000. Many Kenyans in the diaspora are unsure about safe and credible remittance channels.

Transfer operators money

There are currently 17 local MTOs that are licensed by the Central Bank of Kenya. In addition, there are large MTOs like **MoneyGram** and **Western Union**, which ride on the infrastructure of commercial banks.

An increasing number of new, web-based operators are active on the major remittance corridors that link Kenya to diaspora-hosting countries, such as **World Remit**, **Simba Pay**, **Sawapay**, **Wave**, **Bitpesa**, **Sendwave** and **Skrill**. Many of these are subsequently connected to mobile payment systems, such as **Safaricom's Mpesa** and **Airtel's Airtel Money**. Mpesa in Kenya now has 21.6 million subscribers and around 25 per cent of the country's economy and gross national product flows through mobile money services.

Recommendations

The booklet should have a very clear objective and avoid mixing multiple objectives.

It is recommended to provide more general guidance and precautions on the steps to take before investing in Kenya and to target this information towards small-scale diaspora investors.

In terms of highlighting specific investment opportunities, it is recommended to limit this to institutional investment opportunities (such as treasury bonds through the Central Bank of Kenya).

The booklet should be clear in terms of which audience is being targeted. Based on needs, it is recommended to target small-scale investors in the diaspora, as they are the ones who are most in need of reliable information and guidance on investment opportunities and affordable remittance channels.

The booklet should be exhaustive with regards to investment opportunities and remittance channels in order to avoid being seen as incomplete or biased.

The booklet is regularly updated (such as referrals to other information sources, or the publication of update briefs).

Although publication of hard-copy booklets could be considered, digital dissemination of the booklet, particularly through diaspora association websites and social media, will be the most important way to reach the diaspora.

The report notes that it would be important to have more detailed information on emigrant Kenyans in the diaspora. Available remittance channels might differ per region and/or country, which makes it important to know where the largest concentrations of diaspora Kenyans are and could affect dissemination (in other words, where and how to reach Kenyans in the diaspora with the proposed booklet).

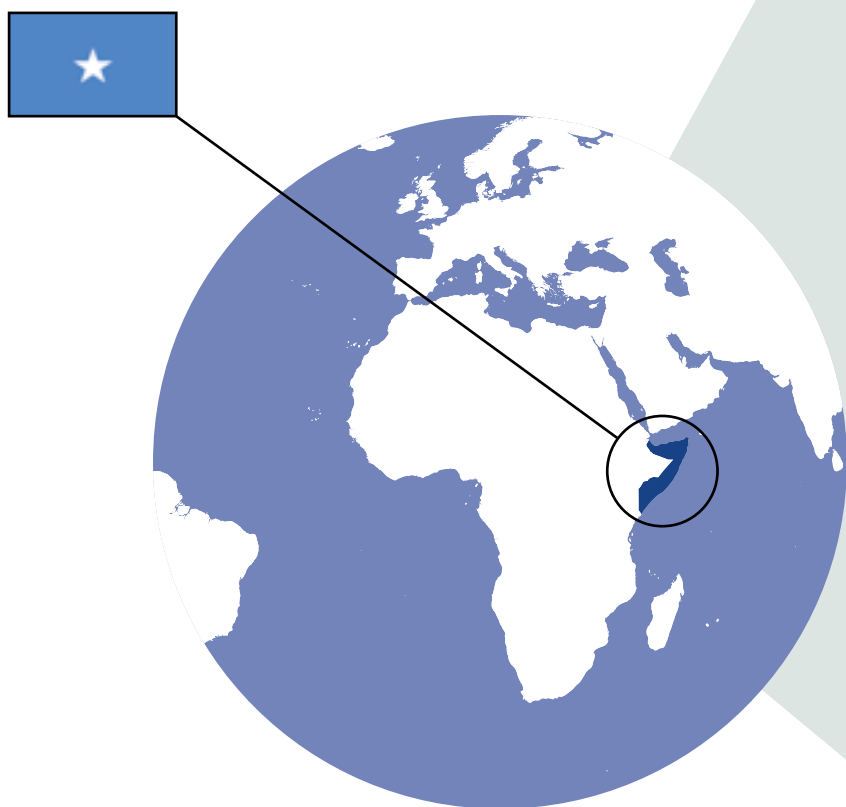
If it is feasible, a rapid but representative survey among the Kenyan diaspora could be factored in the migration expert's preparatory work to provide input for developing the intervention.

Four potential baseline indicators are proposed: the total volume of remittance; the average cost of sending remittances to Kenya; the proportion of diaspora Kenyans that use different types of remittance channels (such as commercial banks, MTOs and new technologies) and the proportion of remittances channelled towards productive activities.

To gain insight in the impact of the proposed intervention, a small-scale survey, asking basic questions about the use of the booklet, the use of remittance channels and investment opportunities, will be the most feasible instrument.

Somalia

Supporting the Central Bank of Somalia's regulation of mobile money to strengthen and safeguard remittances



Key objectives

To safeguard remittances by providing greater consumer protection through the adoption of prudential regulations and mechanisms; de-risking remittances through the domestication of AML and CFT standards; and fostering market competition by adopting appropriate licensing requirements (which has the possibility of reducing the cost of money transfers).

In recognition of the above, the CBS has developed an internal, draft Mobile Money Services Provider Licensing Regulation (2015). However, the CBS requires expertise to fine-tune and improve the draft regulation in order to ensure that it is effective and appropriate to Somalia. This entails:

1. Technical support for targeted research on mobile money banking;
2. Technical support for drafting and fine-tuning regulations;
3. Expertise in setting road maps.

Challenges identified

The Federal Republic of Somalia (FRS) became a failed state in 1991 with the collapse of the Siad Barre regime and has never recovered.

Due to the absence of commercial banking services and regulatory oversight bodies, the launch and operation of mobile money services in Somalia have taken place without the development and implementation of a formal licensing and regulatory framework.

The lack of anti-money laundering (AML) and counter financing of terrorism (CFT) standards and measures in Somalia to address and prevent incidents. The big banks in the developed world have periodically used legal means to cut off the Somalia remittance corridors in an effort to stop money laundering and the financing of terrorism. This has negatively affected Somalis living in Somalia; it has also brought more national attention in Somalia to the need for MM regulation.

The risk that the proposed TA could duplicate or conflict with the current donor programmes underway or under preparation, and the need for greater involvement of the CBS in donor projects that will begin processes and implement interventions in areas of priority to the CBS (namely the regulation of mobile money).

Transfer operators money

Fourteen money transfer operators (MTOs), also called Hawalas, work across Somalia, but have their headquarters in the developed world (the United Arab Emirates, Canada, the United Kingdom and United States, to name a few countries). The Hawalas are a trusted and affordable means of sending money to and receiving money in even remote parts of Somalia. Development agencies and NGOs also use mobile money for sending money in cash-for-food programmes during drought, or to pay salaries in remote areas of the country.

Remittances comprise 80 per cent of Somalia's investment funds.

Recommendations

Donor aid to Somalia increasingly focuses on finding a permanent solution to the regulation of mobile banking by working with the various state actors, including the Federal Government of Somalia, the Central Bank of Somalia and other ministries.

The CBS has developed draft regulations for MNOs involved in mobile money and has requested TA from the ACP-EU Migration Action for a targeted research study, the fine tuning of the draft regulations and a road map for adaption of the recommendations.

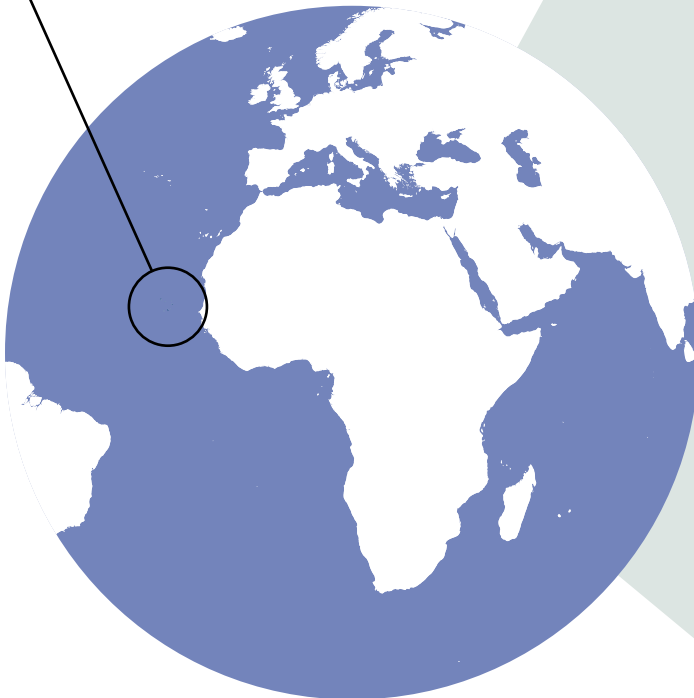
Targeted research on MM using Rapid Assessment Procedures (RAPs); fine tuning of the draft regulations with a legal expert, and field visits to all three regions; and redirection of a road map for the CBS which focuses less on adoption of regulations and more on a way forward for the CBS, including involvement in the ongoing and planned projects.

The CBS has taken an important step in drafting the regulations – the task of ensuring regulations are sound requires extensive consultation with others. The final regulations should also be shown to be flexible with respect to differences in each region. Testing and revising them will also be necessary and the CBS cannot do this alone.

The baseline assessment recommends technical assistance to the Central Bank of Somalia's request supporting research, fine-tuning the regulation with donors and other partners and a change in the road map, with less focus on adoption of the regulations and more on finding a fit in the upcoming projects.

Cabo verde

Study on the dynamics of the remittances sent by Cabo Verdian emigrants and its impacts in their families and in Cabo Verde



Key objectives

To develop a study on the dynamics of remittances of Cabo Verdean emigrants and their impact on the lives of families and Cabo Verde in general.

To create a systematization mechanism, improving access to data, and identifying existing obstacles and ways of increasing remittances.

To identify innovative and attractive investment strategies in other sectors of income-generating activities, especially in tourism and service provision (for example, in information and communication technologies, or health), or traditional areas that have gained new centrality such as agro-business and fisheries.

To improve knowledge of the dynamics of Cabo Verdean emigrants' remittances, increase the volume of remittances for productive investments and increase the interaction between the main actors/actors involved in the issue of remittances.

To provide an overview of the dynamics of Cabo Verdean emigrants' remittances prior to the implementation of the TA intervention, to be used as a reference for comparison with the results achieved through TA intervention. Specifically, this should also include a review of the mechanisms and the policy of transfer of funds, and a brief assessment of the sustainability of the possible TA.

To provide useful subsidies and guidelines for tuning the TA intervention.

The identification of the main stakeholders and non-state actors (NSAs) working in the thematic area of the application; this will result in the mapping of potential NSAs in Cabo Verde, which can be consulted for target projects through specific facilitation of the Action.

To promote legal mobility between Cabo Verde and the EU, and between Cabo Verde and the United States of America. Specific objectives, such as a legal migration channel, facilitate the reintegration of Cabo Verdeans returning from the US and EU countries into Cabo Verde's labour market.

To mobilize the skills/expertise of Cabo Verdeans and their descendants residing abroad to areas defined as essential for the development of Cabo Verde, whether on a temporary or permanent basis.

Challenges identified

Lack of easily identifiable statistical data.

Low response rate. Of the 22 RENEM (municipal focal points on emigration) institutions contacted only 4 responded to the mail and only 3 responded to the interview script.

It was not possible to contact the Directorate-General of Customs, which has access to customs data and the (non-monetary) consignments of goods by country, in order to weight the importance of remittances in the country's economy. This department, which has access to customs data, was also requested to provide data on remittances of (non-monetary) goods by country in order to make a comparison in terms of their importance for the country's economy, but this did not occur.

DEEE considers that data analysis through informal channels used by emigrants and their families to send remittances has not been done by the BCV, which only handles official data sent by commercial banks and customs. Even though the BCV knows that foreign exchange was sent abroad by family members, the fact that there are no formal mechanisms (other than proof of transfer) to prove this “information” prevents cataloguing these deposits as the result of remittances

There are no NGOs in Cabo Verde that are members of the platform that are exclusively dedicated to the issue of emigration and, therefore, have competence in the management of emigrants' remittances.

The main obstacle to the implementation of this framework so far has been too much involvement by the stakeholders. There are a number of reasons that can be pointed out, from political and cultural factors (the persistence of the centralist and colonial mentality of “divide and rule”) to economic factors (the financial resources motivate the dispute of internal and external channels for investments rather than an integrated strategy).

Emigrant communities in Africa – notably Cabo Verdeans in Côte d'Ivoire – complain of the inequality of treatment by the Cabo Verdean state vis-à-vis communities in the West, which translates into a loss of revenues for the state's coffers.

Recommendations

Legal certainty for migrants is a highly necessary condition for realizing the potential of migration, both at the origin and at the destination.

It is important to improve the viability of remittances in three ways:

1. Through attempts to reduce the cost of transactions;
2. To encourage remittances by exempting rates;
3. To favour opportunities to open accounts in foreign currency.

Governments (both origin and destination) should provide material and immaterial support to organizations established by migrants in order to promote more robust projects at the source.

Taking into account the crisis that tourism real estate is currently experiencing in Cabo Verde (due to the high levels of bad credit), banks do not advise emigrants to invest in this business. 40 per cent of the funds (liquidity) in commercial banks are the result of remittances and migrants could invest this capital into more profitable activities such as information and communication technologies (ICT), health, or traditional areas such as agro-business and fisheries.

DEEE should encourage the creation of a general database to integrate and link the main institutions responsible for the area of emigration. This network mechanism would make it possible to adopt more appropriate actions and public policies. It will ensure future sustainability by creating domestic wealth and diversifying sources of financing, and raise funds at a lower cost, which can finance major projects and the construction of technological infrastructure that can foster the emergence of technology companies.

To establish a democratic, horizontal and inclusive structure for all migrants in order to avoid discrimination.

To reinforce the institutionalization of the Diaspora Bonds project.

To promote training for microfinance NGOs in Cabo Verde in order to enable them not only to attract remittances but also to comply with rules of financial operations with the exterior, as stipulated by the regulator, the BCV.

To promote the creation of civil society organizations (emigrant associations) in the country of origin that are exclusively dedicated to the management and investment of emigrant remittances. In this way, the type of civil society organizations operating in the area of remittances is broadened, and their role and impact are reinforced. MFIs would only have a complementary role since their focus is not only on emigrants but also on residents.

In addition to training, it will be necessary to provide material and immaterial support to migrant-origin organizations (in the origin country and destinations) in order to promote more robust projects at the source.

It may be necessary to adapt (reform) the financial system to adapt to the emergence of new actors (the associations) as targets of remittances transfers, in addition to traditional actors (banks).

The creation of a general database that integrates and interconnects the main institutions responsible for emigration.

Integrate public and private research centres and local universities into these policies through research projects carried out through programme contracts.

Increasingly change cash-to-cash operations into bank account-to-bank account operations (in other words, replace informal channels with formal channels).

To encourage the use and adoption of new money transfer technologies (mobile platforms, for example).

To support the financial education of both issuers and remittance recipients, to increase incentives to save remittances, to promote the use of remittances to establish credit history, and to empower migrant workers with greater investment options.

Given that the focus of the platform is on local development, its vision is that better education and the empowerment of stakeholders in remittance management could greatly benefit local communities in the country. If it is possible for microfinance NGOs to utilize remittances in their programmes (for example, microcredit) it would mean a major jump in their volume of activities.

Zimbabwe

Support to the Zimbabwe Diaspora Policy



Key objectives

To support the Ministry of Macro-Economic Planning and Investment Promotion (MMEPIP) in developing the diaspora policy to ensure increased remittances flow from the current USD 1.8 billion to USD 3 billion per annum through a reduction in the cost of sending remittances and by channelling remittances into productive investments.

To provide an overview of the state of affairs on the specific subject of the request of the Government of Zimbabwe prior to the actual implementation of the TA intervention, to be used as a reference against which to compare the results achieved through the TA intervention, and with the objective of evaluating its impact and contribution to the improvement of the initial situation. Specifically, this should also include a review of the funds transfer policy and mechanisms and a short assessment of the sustainability of the possible TA.

To offer inputs and guidance useful to fine-tune TA intervention. Hence, the baseline assessment will help further defining the work plan for the TA intervention.

To identify the major stakeholders and non-state actors (NSAs) working in the thematic area of the request. This will result in the identification and mapping of potential NSAs in Zimbabwe that might be asked to submit target project proposals through a dedicated facility of the Action.

Challenges identified

The World Bank's *Migration and Remittances Factbook 2016* (World Bank, 2016) identified South Africa–Zimbabwe and Canada–Zimbabwe as the highest cost corridors of receiving remittances for USD 200 at 13.6 and 13.2 per cent respectively.

The capacity of the Government of Zimbabwe to manage the multifaceted elements of remittances to maximize their positive impact has been constrained by the lack of accurate information and lack of a comprehensive and coherent policy framework for implementing migration practices in an integrated manner.

There is insufficient current data on the location, size and profiles of the Zimbabwe diaspora but according to a UNDP 2010 report, there are more than three million Zimbabweans living in countries such as Australia, Botswana, Canada, New Zealand, South Africa, the United Kingdom and the United States of America, among others.

There is a recognized need for diaspora profiling and mapping in Zimbabwe. For instance, there is poor knowledge about the type of remittances sent to the country, whether they are cash or non-cash, the amounts and frequency of transfers, where they are used and through which channels they are sent (Maphosa, 2009). Registration through embassies in destination/remittance countries is often hampered by the asylum status migrants applied to when moving to these countries. In Zimbabwe, there is no systematic and structured treatment of the available data about remittances.

There is currently no established database in any of the relevant ministries which provides comprehensive data on the location, professional and social activities, and institutional affiliations of Zimbabwean diaspora.

Recommendations

In terms of relevant indicators, it is recommended that the TA intervention address systemic issues involving effective and inclusive governance with regards to remittances and related monetary system reform, including elements drawn from the Addis Ababa Action Agenda (AAAA).

Building and strengthening confidence and trust between the Government and the diaspora including through the involvement of the diaspora in national development processes.

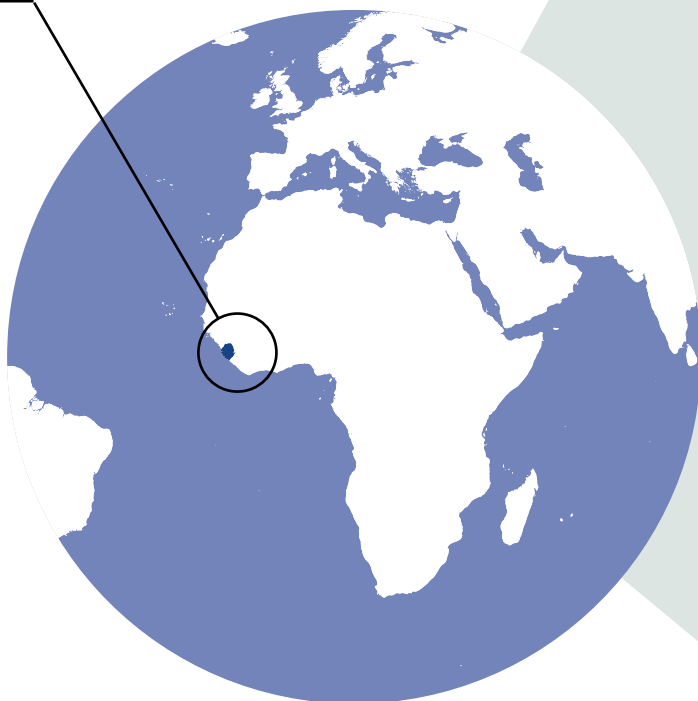
Promoting and increasing the number of low cost, secure and formal channels for sending remittances.

Making data on transfer costs available to the general public in order to improve their transparency and comparability.

Contribute to establishing mechanisms for the remittances of social security benefits for retired returnees.

Sierra Leone

Leveraging diaspora remittances
on post-Ebola recovery in
Sierra Leone



Key objectives

To report on the state of affairs regarding the development of a remittance strategy in order to strengthen the capacity of the Office of Diaspora Affairs in leveraging Sierra Leone diaspora remittances to promote legal transfers for all migrants.

To make a review of the funds transfer policy and mechanism for sustaining the potential technical assistance intervention.

To define a work plan for the TA intervention.

To identify and map potential stakeholders and non-state actors in Sierra Leone.

Challenges identified

The absence of fundamental frameworks, such as diaspora policy or a framework for legal funds transfers, incapacitates the Office of Diaspora Affairs.

Illicit diamond trading that fuelled the civil war is still playing a significant role in informal market financial operation. Desk review and primary data showed that over 30 per cent of financial inflows into Sierra Leone can be attributed to diamond smuggling.

The Sierra Leone economy was adversely hit by two major shocks in 2014: the outbreak of the Ebola Viral Disease (EVD) and the sharp drop in iron ore prices. The combined effect of these two shocks on economic activities weakened the growth potential of the economy and reversed some of the gains made in stabilizing the economy in 2013. As a result, the economic growth moderated to 7.1 per cent compared to the pre-Ebola projection of 11.3 per cent and the robust growth of 20.1 per cent recorded in 2013.

The BA did not include a mapping of all RSPs due to their wide and atypical distribution, such as the use of supermarkets, shops, internet cafes, street stalls, etc. One of major service providers, Afro International, declined to be interviewed.

In Sierra Leone, according to our interviews, Bureau de Change operators are dominated by the Fula tribe. They control USD in the foreign exchange market, can supply any amount of dollars to customers, have networks in neighbouring countries like Guinea and can move dollars across borders without hindrances since they often have dual citizenship. They have gained the trust of people and can take higher risks than commercial banks. Informal actors like the Ful a are a threat to the foreign exchange market and local currency.

During the war, operators of unauthorized money transfers were able to serve people even when commercial banks and other formal money transfer operators fled. The war lasted for 11 years; therefore, confidence is high in the informal market. Among other bitter experiences with formal banking in Sierra Leone of the indigenous people that still affects the system is that they could not get access to money held in commercial banks during the war.

Recommendations

Provision of technical assistance to the Office of Diaspora Affairs to develop a diaspora framework.

Provision of technical assistance to the Bank of Sierra Leone to develop diaspora remittance policy and have it passed into law through the parliament.

Work with the Sierra Leone postal service to develop a nationally representative platform for diaspora remittance.

Creation of a taskforce for regulatory and policy framework enforcement.

Formalization and incorporation of the informal market into the framework.

Reduced limits on individual bank transactions to restrict the flow of cash into the informal banking system (UNDP, 2009).

The extension of foreign exchange bureau licenses to allow such bureaus to receive remittances subject to a modest minimum capital requirement, a requirement to report total transfers received or sent as well as individual transfers in excess of USD 10,000, or transfers to or from countries blacklisted by the Financial Action Task Force. However, the license extension should not extend to deposit-taking or making loans, which bureaus would continue to refer to licensed banks (UNDP, 2009).

Public utility companies in Sierra Leone should offer for sale, through approved issuing banks in the UK and US, exchange rate-linked bonds (ERLBs), in accordance with the securities legislation of the UK and the US respectively. These would be payable in relatively small amounts, for example USD 100 per bond. Interest, at a rate of, for example, 5 per cent, and the principal would be payable in Leones to a nominated beneficiary in Sierra Leone over a period of five to eight years. Interest and principal would increase in proportion to changes in the exchange rate between the Leone and the USD, so that the bonds would keep their effective dollar value. The maturity period should allow the issuing utility company to refinance ERLBs by placing longer-term bonds on the Sierra Leone Stock Exchange. To assure the liquidity of ERLBs, their beneficiaries should be allowed to obtain early repayment of the principal by selling the bonds to the National Social Security and Investment Trust, at a discount of, for example, 10 per cent (UNDP, 2009).

Sierra Leone emigrants should be allowed to open non-resident foreign currency bank accounts in licensed commercial banks in the country. Interest should be payable on these accounts at a rate slightly below the rate offered on ERLBs (UNDP, 2009).

Terminating credit societies, based on the traditional *osusu* system, should be established to finance house building or school fees, with the possibility of receiving contributions from Sierra Leone citizens living abroad. These should be registered and audited to prevent fraud (UNDP, 2009).

To finance infrastructure repair and improvement, and social services such as education and health, the Government of Sierra Leone should issue diaspora bonds in amounts of, for example, USD 100 each. These would have a maturity of between five and eight years and pay interest at a rate of, for example, five per cent. Interest would be rolled up and paid together with principal in USD on maturity. We recommend that matching loans be provided by the World Bank and multilateral financing agencies.

Eventual issue of foreign currency securities backed by the foreign exchange components of remittances and donor aid flows. The latter would require greater and longer-term commitments by aid donors (UNDP, 2009).

We recommend milestones for financial development to support these new financial instruments, including the reporting of data on remittances and target levels of foreign currency deposits with commercial banks; households with bank accounts; sovereign bond issuance by the Government of Sierra Leone to establish a benchmark credit rating for future securitization; reductions in diamond-smuggling; and the successful refinancing of ERLBs on the Sierra Leone Stock Exchange (UNDP, 2009).

Strong political will by the Government to end or reduce the operations of informal markets and diamond smuggling.

Cooperation between the Bank of Sierra Leone and other central banks in Africa, Asia and Latin America to share experience and build capability in managing informal banking and remittances (UNDP, 2009).

Guyana

Develop a study on remittances in Guyana with specific focus on transfer cost and reduction options



Key objectives

To conduct a study on remittances in Guyana on behalf of the Ministry of Foreign Affairs (MoFA) of the Republic of Guyana with a specific focus on remittance transfer costs and potential reduction options.

To gather more information on sending remittances to Guyana, with a specific focus on how the cost of sending remittances could be reduced and how to effectively channel the remittances toward the social and economic development of Guyana.

To provide a picture of the situation before the inception of the intervention.

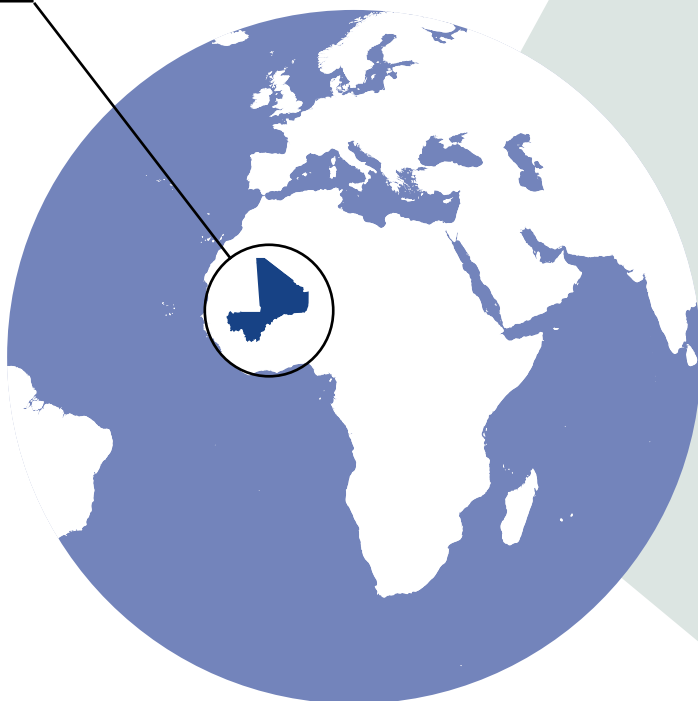
Challenges identified

The monetary cost of sending remittances is composed of the sending fees and the difference in the exchange rate from USD to GYD. The sending fees are set unilaterally in the source country. When it comes to the exchange rate, since 1989 Guyana has had a floating exchange rate determined, to a great extent, by individual banks, money transfer agencies and Cambio who set their own exchange rate. These NSAs set their own rates by considering the global exchange market and their competition in Guyana.

An element adding to the monetary cost is the accessibility of transfer facilities. Money transfer agencies have a comparative advantage in this area through their approximately 20,011 agents located all over the country. The speed of the transfer, the documents which need to be presented when transferring money and the confidence in the operator are also important elements taken into consideration by the senders and recipients when choosing whose services to use.

Mali

Evaluation of the mechanisms implemented in Mali since 2011 on how to reduce the cost of remittances



Key objectives

To assess the mechanisms of remittances put in place by the various stakeholders in order to propose recommendations for improvement.

To draw up an inventory of the specific request made by the Government of Mali with regards to the technical assistance requested, which can be used as a reference situation in order to facilitate the assessment of the level of achievement of results through the technical assistance. Specifically, this action includes a review of policies and mechanisms for remittances and a rapid assessment of the sustainability of potential technical assistance.

Propose useful content and recommendations to finalize the support to be provided by the TA.

Identify non-state actors working on the requested topic. This will allow the identification and mapping of potential NSAs in the Republic of Mali that could be supported under Component 2 of the Action Programme to support NSA initiatives in the country where a request for technical assistance has been submitted.

Challenges identified

Lack of availability of stakeholders during the mission. The timings of the meetings were very tight and some speakers who were not present in Bamako during the consultant's stay could not be met.

The initiative of the Ministry of Foreign Malians to reduce the costs of transfers of funds from the diaspora through the convention with the BIM is still not very well known and remains to be disclosed.

The majority of diaspora nationals and their families prefer the use of informal circuits. Several reasons are put forward to justify this preference:

The speed of the system: the beneficiary can receive the funds in less than 15 minutes following the transaction and transfers can be received even in the most remote villages.

The simplicity: no red tape; the beneficiaries are not obliged to present or hold a piece of identification, the telephone number is sufficient as proof of the identity of the beneficiary.

For the shipper, it is not necessary to justify the origin of the funds and the service is also accessible to persons residing in an illegal situation.

Confidence: it is enough that the sender and the person in charge of the transaction know each other and/or are from the same village in Mali.

The high cost of banking circuits and money transfer institutions: it is relatively higher than the average costs used by informal circuits.

The poor quality of banking services: many diaspora stakeholders believe that the services offered by the banks in Mali are of lower quality. The most cited grievances are slow service (up to 4 hours waiting) and corruption: sometimes it is necessary to bribe the bank's agents either to access them at peak times or to make the process faster.

Recommendations

Update the inventory of the study carried out in March 2010.

Capitalize on the experiences of various banking institutions and particularly the system that uses mobile phones to reduce transfer costs.

Monitor and analyse in particular the implementation of the agreement between the Ministry of Foreign Malians and the BIM.

Develop strategies to minimize informal remittance systems.

Suggest a relay system that covers the entire national territory up to the last kilometre.

Advise the Ministry of Foreign Malians from the outside to better play its role of coordinating the actions of all the stakeholders.

Advise the Malian State to have better visibility on the formal and informal financial flows coming from the diaspora in order to have reliable statistics enabling the formulation of objective indicators.

Assist in the development of a strategy to better mobilize savings for productive development.

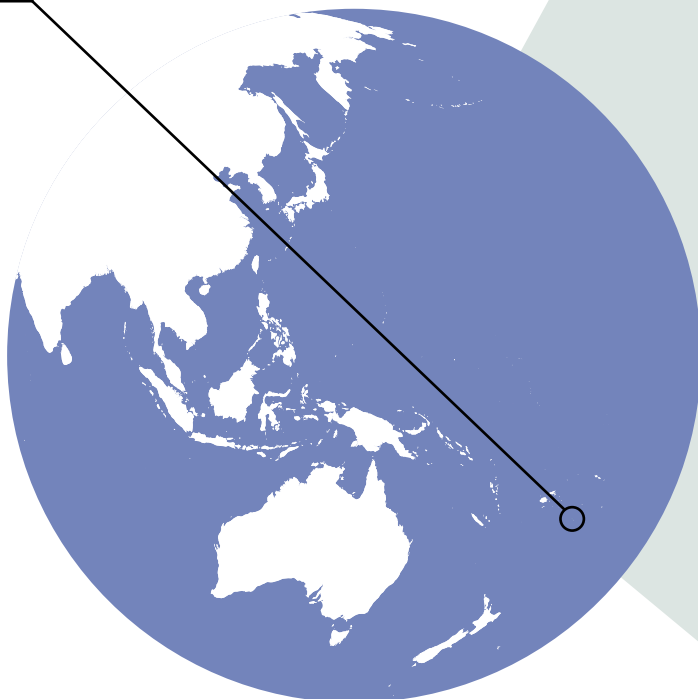
Analyse the results of the feasibility study for the creation of a Bank of Malians from the outside to facilitate its creation.

Analyse the possibility of creating a guarantee fund housed in a local bank to be made available to the Malian diaspora to facilitate their investment in productive projects in Mali.

Analyse the possibility of levying a consideration on the costs of transferring funds in order to supply the diaspora guarantee fund.

Tonga

Strengthening diaspora
engagement and remittances
in the Kingdom of Tonga



Key objectives

To help Tonga to strengthen its links and engagement with its diaspora, and hence increase remittances and improve the predictability and sustainability of remittance flows to help Tonga achieve its national development goals.

Identifying attractive and sustainable options for the use of remittances, and the formulation of policies that would lead to reducing the costs of sending remittances to Tonga.

The objectives of this intervention will directly contribute towards the TSDF II (Tonga Strategic Development Framework 2015-25 II) Organizational Outcome to improve collaboration with the Tongan diaspora and to the TSDF's priority to achieve more inclusive development, and improved access to opportunities and knowledge.

The intervention will help achieve commitments to the UN 2030 Sustainable Development Goals (SDGs) and UNFCCC COP21 and to those undertaken as a newly acceded member of the ILO.

Challenges identified

Considering the importance of remittances to Tonga's economy, and the significant potential of Tonga's diaspora to further assist in Tonga's socioeconomic development, there is a need to strengthen the relationship and engagement with the diaspora.

Recommendations

The Action will provide recommendations for the formulation of a "diaspora engagement strategy" for Tonga, including policy options, investment options, action points with specific timelines and responsibilities and resources required.

Furthermore, concrete policy recommendations on options to reduce the cost of sending remittances will be provided.

ANNEX 2

Diaspora investment

Diaspora investments

Although a separate issue to remittances, which are defined as person-to-person transfers, usually of low value, the diaspora are increasingly recognized by governments as a valuable resource to be targeted for larger scale, long-term investments in their country of origin. It is important to note that there are many other ways in which diaspora can, and do, play a role, such as enhancing knowledge and technology transfer, providing mentorship and strategic guidance to local businesses and entrepreneurs, and encouraging trade. However, the focus of this annex will be on understanding how to facilitate direct investment from diaspora communities.

The annex will analyse the limitations of facilitating investment from the diaspora, followed by broad recommendations.

Challenges: Facilitating diaspora investment

1. Regulatory environment and restrictions for investments and cross-border payments of foreign nationals

Many countries place limits on foreign nationals' ownership of real estate and property. In Mexico, for instance, foreigners cannot directly purchase homes in certain areas – mainly coastal and indigenous zones of the country. Foreigners are also not allowed to purchase land in the Philippines, but they can purchase condominium units. In India and China, resident foreigners can purchase homes but have to get permission from government authorities. These limitations on foreign property ownership curtail the options that are available to members of the diaspora who have surrendered their citizenship and to their descendants.⁸⁹

Furthermore, many diaspora members invest in their country of origin through gaining bank credit. However, this requires the diaspora to take on the currency risk, which is a significant disincentive particularly where currencies are volatile. Even where foreign currency accounts can be opened, restrictions on the holding of foreign currency and transaction limits can hinder diaspora investment. Interviews with stakeholders during the research stages of the

89 Migration Policy Institute and International Organization for Migration, *Developing a Road Map for Engaging Diasporas in Development: A Handbook for Policymakers and Practitioners in Home and Host Countries* (2013). Available from http://publications.iom.int/system/files/pdf/diaspora_handbook_en_for_web_28may2013.pdf.

Ethiopia TA found that several diaspora reported difficulty in investing in-country due to limitations on transactions in foreign-denominated currency accounts. Again, a proportional approach here is necessary.⁹⁰

2. Lack of reliable data on diaspora communities

Lack of data on the diaspora communities in the ACP countries can be an obstacle for maximizing the potential for remittances. The BA for Zimbabwe highlighted this as a particular obstacle to facilitating productive flows:

There is a recognized need for diaspora profiling and mapping in Zimbabwe. Registration through embassies in countries of destination/remittance is often hampered by the asylum status migrants applied for when moving to these countries.... In Zimbabwe, there is no systematic and structured treatment of the available data about remittances. There is no established database in any of the relevant ministries, which provide comprehensive data on the location, professional and social activities and institutional affiliations of Zimbabwean diaspora.

As discussions with the IOM indicated, the term “diaspora” refers to a wide range of people across multiple jurisdictions, legal statuses and demographics. The collection of data is vital to understanding who to target and how to target them when analysing how to make remittances flow sustainably. For instance, research from the Migration Policy Institute noted the challenges in the Philippines of implementing provisions for dual or multiple citizenship, simply due to what is seen as a “lack of correct information among the Filipino communities abroad”.⁹¹

3. Opportunities and mechanisms for delivery

Lack of trust in government, challenges with under-developed capital markets and other financial products, as well as asymmetric information and lack of credit information, can also limit the ability for diaspora investment, particularly in countries with limited financial infrastructure.

90 Migration Policy Institute and International Organization for Migration, Developing a Road Map for Engaging Diasporas in Development: A Handbook for Policymakers and Practitioners in Home and Host Countries (2013). Available from http://publications.iom.int/system/files/pdf/diaspora_handbook_en_for_web_28may2013.pdf.

91 Ibid.

4. Creating awareness among the diaspora of the opportunities available to them

Making benefits available for diaspora is only part of the battle; making members aware that such benefits exist is an even bigger challenge. In offering special privileges, governments need to show that there is demand for them. Otherwise, it is very difficult to make the case for special provisions.

Practical recommendations: Facilitating diaspora investment

5. Use a variety of tools to map diaspora

It is vital for national governments, MTOs, banks and others to understand where their diaspora is, both to effectively create policy and to disseminate information. Tools that can be used include:

National census data – national census data can be used to determine more information on the size of the local population and changes since the previous census.

Border data – border data can be used to capture where diaspora are moving to or arriving from. Togo is a good example of a country that does this.

Surveys – surveys are useful for gathering a range of information about migration patterns and on the diaspora.

Box 19: The importance of diaspora mapping: Somalia

Diaspora's interest in contributing to the Somali economy was further confirmed by the online Somali Investment Survey, which was carried out by Shuraako in 2015. Close to 1,000 participants in 33 countries completed the survey. The survey provides useful information on what the diaspora would view as critical factors for facilitating diaspora investment, including evidence of profitability, a transparent and enforceable contract and risk mitigation.

6. Promote private and public investment from diaspora

There has been significant and increasing focus in recent years as to how best to harness remittance flows to facilitate investment into private and public capital markets. Several studies have demonstrated that members of diasporas can increase investment flows into remittance-receiving countries by overcoming – at least in part – the problem of asymmetric information, as well as having the language skills, knowledge of the regulatory environment, and a genuine wish to help develop their country of origin. The following section looks at some of the policies and products which have been created to aid the flow and process of diaspora's investing in their country of origin⁹² – through private and public partnerships. It should be noted that this is not meant as an exhaustive list – nor should it represent a “check list” for countries. Rather, each country will have its own unique set of challenges and opportunities which will need to be assessed on an individual level.

6.1 Support business forums. Both government and the private sector have supported business forums to attract diaspora investors. One of the new roles of African investment promotion agencies, for example, in Ethiopia, Ghana (Riddle, 2006), Nigeria and Uganda, is to provide accurate information and linkage opportunities to investors, including from diasporas.⁹³

6.2 Ease restrictions on foreign land ownership. For example, the Government of Ethiopia allowed holders of a yellow card (the identification card for the Ethiopian diaspora) to lease land parcels at low rates for the construction of residences in Addis Ababa. Because of the high demand for land, the city of Addis Ababa officially suspended allocation of residential land for the diaspora in 2008. The Rwanda Diaspora General Directorate allows groups of 15 or more people to acquire land in Kigali for house construction, provided the project has been approved by the Kigali City Council based on the Kigali Master Plan.

92 Studies include Kluger and Rapoport (2005); Docquier and Lodigiani (2007); Javorcik et al. (2006); and Murat, Pistoiesi and Rinaldi (2008). *Source:* Plaza, S. and D. Ratha, “Harnessing Diaspora Resources for Africa” in Plaza, S. and D. Ratha (eds.), *Diaspora for Development in Africa* (Washington DC, 2009). Available from http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/DfD_FullReport.pdf.

93 Ibid.

6.3 Allow remittances to count towards credit history.

6.4 Relax restrictions on outward remittances for non-resident diaspora.

6.5 Improving the conditions for setting up a new business, for example, tax incentives for diaspora in India.

6.6 Bridge information gaps. For example, USAID country missions reportedly maintain lists of private investment opportunities; these lists could be disseminated to diaspora communities through partnerships.

6.7 Encourage private investment in countries' stock exchanges. For example, initial public offerings at the Dhaka Stock Exchange have a 10 per cent quota for Bangladeshis living abroad.⁹⁴

6.8 Consider introducing transnational loans. Small loans provided by banks or microfinance lenders that allow immigrants to apply for and service a loan in their countries of origin while residing abroad.

6.9 Consider creating government diaspora bonds. Perhaps one of the areas which has obtained the most focus and discussion in recent years is that of government diaspora bonds. Diaspora bonds are particularly important in countries where the credit rating is BB+ or lower. MPI research found that about 11.2 million immigrants in the US came from countries with a sovereign credit rating below investment grade (BB+ and lower).⁹⁵

94 Mahmood, S.Z. "Non-residents' banks channel diaspora investment to Bangladesh", Wall Street Journal (2015). Available from <http://blogs.wsj.com/frontiers/2015/09/30/non-residents-banks-channel-diaspora-investment-to-bangladesh/>.

95 Terrazas, A. Diaspora Investment in Developing and Emerging Country Capital Markets: Patterns and Prospects (2010). Available from www.migrationpolicy.org/research/diaspora-investment-developing-and-emerging-country-capital-markets-patterns-and-prospects.

6.10 Examine a matched funding scheme to attract diaspora

investment. There are also examples around the world of where remittances have been used to facilitate improvements in the infrastructure in towns/cities/districts of origin of migrants. Mexico has encouraged several these initiatives with the *Tres por Uno* programme being the most well-known (see box 21). Another good example of best practice can be found in the Philippines (see box 22).

6.11 Introduce non-resident foreign accounts. Many diasporas invest in their country of origin through gaining bank credit; however, this required the diaspora to take on the currency risk. This is a major consideration in countries where their currencies are minor or “exotic”.

Box 20: Best practice – Foreign currency accounts: Central Bank of Turkey

The Central Bank of Turkey offers foreign currency-denominated fixed term accounts and “super FX accounts” for Turkish passport holders residing abroad. These accounts can be denominated in US dollars, British pounds or Swiss francs (super FX are only available in euros and US dollars).

At the end of 2009, non-residents held about USD 5.5 million in these accounts.

Source: Terrazas, A. Diaspora Investment in Developing and Emerging Countries Capital Markets: Patterns (2010).

21: Best practice – Tres por Uno: Mexico

3x1 Mexico was introduced in 2002 to match contributions made to Mexicans in the US via Hometown Associations (HTA) to improve the infrastructure of migrant-sending areas of Mexico. According to Migration News “the 3x1 programme provides USD 3 in federal, state and local funds for each USD 1 contributed by HTAs for water, sewer, road-, and similar infrastructure projects. HTAs propose the projects, and Government of Mexico agencies vet and approve them before providing the matching funds.

The programme operates in 27 of Mexico's 32 states, but most 3x1 funds are spent in the four western Mexican states that are the sources of most Mexicans in the United States: Guanajuato, Zacatecas, Jalisco, and Michoacán.

The 3x1 programme is very small in relation to Mexico's annual remittances. 458 million pesos (USD 38 million) in federal (Sedesol) funds were available in 2008, when 2,500 projects were supported. About 40 per cent of these projects involved paving roads. The federal government contributes up to 800,000 pesos (USD 60,000) per project.

In 2008, a 1x1 Migrant Business Fund was established to provide subsidized loans to Mexicans in the United States who want to invest in Mexico. Migrant entrepreneurs must submit business plans to the Mexican development agency Sedesol, which can grant up to 300,000 pesos (USD 22,600) to help establish a business in Mexico.⁹⁶

Source: Migration News, “Mexico: Migrants, Remittances 3x1” (October 2009). Available from <https://migration.ucdavis.edu/mn/more.php?id=3548>.

96 Migration News, “Fiji wants Professionals to Return” (1994). Available from <https://migration.ucdavis.edu/mn/more.php?id=354>.

Box 22: Best practice – Leveraging migrant worker remittances for development in Asia

To overcome obstacles, some Filipino local government officials have taken the initiative to collect funds from migrants for projects they have chosen. In one case officials initially approach members of the migrants' families who have remained behind. The family members then contact the migrants, who bring the issue to the attention of their local Home Town Association. Migrants have an incentive to do this because leading such an effort brings them prestige in their community.

A report from the Economist Intelligence Unit states that: "If association views the proposal positively, the local officials will travel to see the migrants, often at the expense of the migrant association itself. These "road shows" can have a substantial impact on a rural town, as has been the case in the Filipino municipality of Pozorrubio in the northern province of Pangasinan.

Pozorrubio's main economic activity is agriculture. However, the town has developed far beyond what its local economic activity would otherwise indicate – 10 per cent of the population is overseas and is actively encouraged by the local government to remit collectively for public works. As far back as 1986 the mayor visited Pozorrubians in northern and southern California, Chicago, Hawaii, New York, Washington and Hong Kong. He encouraged them to form their own solidarity groups, elect officers, and identify projects and programmes in their hometown to which they could make donations. For example, Pozorrubio previously had no street lights, but when the mayor encouraged the families of migrant workers to voluntarily set up sidewalk light posts in front of their own houses, the whole town lit up.

As the Pozorrubian migrants became better organized, the local administration began encouraging the migrants to give their donations straight to the beneficiaries. It invited Pozorrubian migrants to come back home and see for themselves the improvements in the town and the impact their remittances had. Return migration was the theme of the 2002 town fiesta ("Sempet 'Come back home to' Pozorrubio"). Return migration also becomes a mechanism for migrants to not just see the physical benefits of their donations, but to maintain transnational relations between origin and host societies.

Because of these efforts, Pozorrubian migrant communities abroad financed construction of a park in the town square and a new library, and refurbished a high school's English learning centre with books, a karaoke unit, a mini-stage, and lights. The community hospital received an electrocardiograph, a computer, a comfort room, a septic tank, hospital bedding, stethoscopes, window screens, medicines, and ceiling and electric fans. The hospital receives annual medical missions from locally born doctors now living abroad, and the medicines are distributed to the residents for free.

The multiplier effect of these remittances has been enormous. By 2001 this rural town of 56,000 had Internet cafes, car rental services for returning migrants, video rental shops, and a rural bank with over USD 2 million in deposits but with just a few borrowers. It also had 12 public and private irrigation facilities, 50 manufacturing establishments, 6 big private housing subdivisions, and 32 day-care centres. This level of development is almost never seen in the rural Philippines, even in the larger rural towns or municipalities. Moreover, the town's tax collection is one of the highest in the region, with most of the revenue collection coming from the town's busy public market.

Source: The Economist Intelligence Unit (2008)

Box 23: Best practice – Leveraging migrant worker remittances for development in the Horn of Africa

Enhancing food security in the Horn of Africa through diaspora investment in agriculture – AgriFood Fund

AgriFood Fund (somaligrifood.org) is part of IFAD's "Enhancing Food Security in the Horn of Africa" initiative, and aims to facilitate diaspora investment in agriculture programmes in Somalia through a matching seed capital fund which aims at providing incentives to facilitate diaspora investments into the Somali agriculture, fisheries or food processing sectors. According to a 2016 IFAD report "The AgriFood Fund supports investment projects that can range from USD 20,000 to USD 250,000 through a 40 per cent contribution. The remaining 60 per cent is financed by the business owner with cash or in-kind contributions (20 %) and by external capital, of which at least one third (or 20 % of the total project cost) is to be financed by the diaspora. The leverage ratio of the USD 673,000 fund is expected to be 3.4 to 1, or a total investment of USD 2.28 million.

By January 2016, 199 candidates had applied to the AgriFood Fund and 6 business owners had been awarded financing for a total of USD 435,600. The approved business plans involve eight diaspora investors, of which two are women. These all originate from the region they invest in and contribute 40 per cent to 60 per cent of the investment. The six awarded agribusinesses are expected to generate 196 new jobs and to open new market outlets for about 15,000 small-scale producers in the agriculture and fisheries sectors.

The project has demonstrated that it is possible to attract diaspora investment into Somali agribusinesses and to generate employment and revenues through diaspora resources. Furthermore, it has raised interest from the national financial sector (local banks and microfinance institutions) to develop activities aiming at diaspora investment into the local economy. This will however require that banks improve compliance with international banking standards.

Source: IFAD 2016. Diaspora Investment in Agriculture (DIA) initiative. www.ifad.org/documents/10180/4fab1867-3435-4597-8968-80877b933faa.

7. Introduce non-citizenship cards

For example, all persons born in Jamaica or of Jamaican parentage or heritage would be eligible to hold a non-citizenship card, which provides all the benefits of a Jamaican passport except the right to vote and allows the cardholders the right to stay for an extended period in Jamaica.

This is particularly important where there are restrictions on foreign investment or ownership of land/property rights and restrictions on the opening of bank account/financial products for foreigners.

Box 24: Pakistan Overseas Card (POC): Pakistan

Pakistan's National Database and Registration Authority issues the Pakistan Overseas Card (POC) to its diaspora members. POC holders are allowed visa-free entry into Pakistan, can stay indefinitely in the country, and are exempted from foreigner registration requirements. They can also purchase and sell property, open and operate bank accounts, and need not apply for a Computerized National Identity Card (CNIC). The National Identity Card for Overseas Pakistanis (NICOP), on the other hand, is issued to Pakistani workers, emigrants, citizens, or Pakistanis holding dual nationality. All non-resident Pakistani nationals who have lived abroad for more than six months are required to get a NICOP. Holders of NICOPs are entitled to visa-free entry into Pakistan, protection of the government of Pakistan in any foreign country or state, and membership in the Overseas Pakistanis Foundation (OPF).

Source: MPI, Developing a Road Map for Engaging Diasporas in Development: A Handbook for Policymakers and Practitioners in Home and Host Countries.

8. Increase the role and numbers of embassies and consulates

In the P2P Exchange Meeting, the roles of embassies and consulates in reaching out to diasporas was argued to be key. Part of the challenge in promoting diaspora investment is ensuring that information is distributed across varied and dispersed migrant communities around the globe. Embassies and consulates can play a key role as an intermediary in this.

ANNEX 3

Glossary

Glossary

Access point

Locations where end users can send/receive remittance transfers. Access points can be physical (for example bank branches, post offices, or shops) or virtual (such as websites or mobile telephones).

Agent

An entity that distributes remittance transfers on behalf of an RSP.

De-risking

De-risking refers to the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk.⁹⁷

Diaspora

Diasporas are broadly defined as individuals and members of networks, associations and communities, who have left their country of origin, but maintain links with their homelands. This concept covers more settled expatriate communities, migrant workers based abroad temporarily, expatriates with the nationality of the host country, dual nationals, and second and third generation migrants.

Exclusivity condition

In the context of this report, an exclusivity condition is where an RSP allows its agents or other RSPs to offer its remittance service only on the condition that they do not offer any other remittance service.

97 World Bank, The World Bank's Data Gathering Efforts: De-risking? Key Findings and Recommendations (2016). Available from <http://pubdocs.worldbank.org/en/953551457638381169/remittances-GRWG-Corazza-De-risking-Presentation-Jan2016.pdf>.

Financial Action Task Force (FATF)

An intergovernmental body which set standards and promotes effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. It is essentially a policymaking body which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.

First mile

The part of a remittance transfer where the payment is initiated. This is also referred to as the “sending” part of the transaction. It is often used to describe the environment in the sending country.

FX margins

The percentage difference between the interbank foreign exchange rate and the rate charged by a payments service provider.

International remittances

A cross-border person-to-person payment of relatively low value. In practice, the transfers are typically recurrent payments by migrant workers – who often send money to their families in their home country every month. In the report, the term “remittance” is used for simplicity. Therefore, it is assumed the transfer is international.

Irregular migration

Movement that takes place outside the regulatory norms of the sending, transit and receiving countries. There is no clear or universally accepted definition of irregular migration. From the perspective of destination countries, it is entry, stay or work in a country without the necessary authorization or documents required under immigration regulations. From the perspective of the sending country, the irregularity is, for example, seen in cases in which a person crosses an international boundary without a valid passport or travel document or does not fulfil the administrative requirements for leaving the country. For the purpose of this report, the definition is used broadly to encompass those migrants who do not have the necessary authorization or documents under the immigration regulations of the host country, and is therefore used interchangeably with “undocumented migrant”.

Informal remittances

Informal remittances include all money and in-kind transfers that do not involve formal contracts, and are hence unlikely to be recorded in national accounts. Informal channels include cash transfers based on personal relationships through business people, or carried out by courier companies, friends, relatives or one-self. In addition, informal remittance systems include more advanced Hawala and Hundi systems that rely on a network of agents.⁹⁸

Know your customer (KYC)

A set of due diligence measures undertaken by a financial institution to identify a customer and the motivations behind his or her financial activities. KYC is a key component of AML/CFT regime.

Last mile

The part of a remittance transfer where the payment passes from the settlement system (second mile) to the recipient (last mile). Often referred to as the third mile.

Letters of no objection

For the purpose of this report, a letter of no objection refers to a letter issued by a regulator to a service provider. The letter provides approval for the service provider to offer a specific service and sets out the conditions that the service provider must meet. Usually, this occurs where a specific regulatory framework does not exist for a specific service.

Microfinance institution (MFI)

A non-bank financial institution which offers financial services primarily to low income populations. Almost all offer loans, and some also offer other financial services such as insurance and savings.

Mobile network operator (MNO)

A company that has a government issued license to provide telecommunications services through mobile devices.

98 Definition taken from MPI Remittances Glossary. Available from www.migrationpolicy.org/programs/data-hub/remittances-glossary.

Money transfer operator

A non-deposit taking payment service provider where the service involves payment per transfer (or possibly payment for a set or series of transfers) by the sender to the payment service provider (for example, by cash or bank transfer), as opposed to a situation where the payment service provider debits an account held by the sender at the payment service provider.

Payment service provider

An entity that provides payment services (remittances and/or other payments). This includes both entities that take deposits and allow transfers of funds to be made from those deposits (in other words, most banks and many non-bank deposit-takers) and non-deposit takers that transfer funds (for example, money transfer operators).

Remittance service provider (RSP)

An entity, operating as a business, that provides a remittance service for a price to end users, either directly or through agents.

Third mile

See last mile.

Tiered structure

Refers to a certain type of fee set by a money transfer operator that rises in incremental bands. Normally the percentage cost of a transfer lowers the more that is sent. The fee is normally in a band. For example, it might cost USD 10 to transfer between USD 1 and USD 200 and USD 15 to transfer between USD 201 and USD 400. It can also be used to describe different levels of KYC documentation and information that is required to be collected depending on the size of the transaction. This ensures that a proportionate approach can be taken.

Undocumented person

A non-national who enters or stays in a country without the appropriate documentation. This includes, among others: a person (a) who has no legal documentation to enter a country but manages to enter clandestinely, (b) who enters or stays using fraudulent documentation, (c) who, after entering using legal documentation, has stayed beyond the time authorized or otherwise violated the terms of entry and remained without authorization.⁹⁹

Universal Postal Union (UPU)

A forum for cooperation between postal sector stakeholders.

Use cases

Refers to a proposition or product that is developed for a specific purpose. For example, government payments or solutions offered by microfinance institutions rather than a generic solution.

99 Definition adapted from International Organization for Migration, EU Glossary on Migration. Available from https://ec.europa.eu/home-affairs/what-we-do/networks/european_migration_network/glossary/index_a_en.

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