

REPORT ON MIGRATION, REMITTANCES AND RURAL DEVELOPMENT

International Fund for Agricultural Development (IFAD)

A. INTRODUCTION

The mission of the International Fund for Agricultural Development (IFAD) is to enable rural poor people to overcome poverty. Thus, the organization's interest in migration issues derives from the fact that migration is closely related to rural poverty. In recent decades, migration has changed the composition of families in many poor rural communities where IFAD operates. Globalization and migration are rapidly transforming the economic and social structure of rural life. More and more members of rural families are living abroad, far away from their dependants. However, poverty that forced rural inhabitants to migrate still exists in the places of origin and continues influencing lives and prospects in the countries of destination, as well as those of the people they left behind.

Remittances are the financial counterpart to migration and are the most tangible contribution of migrants to the development of their areas of origin. Migration and remittances are significantly reshaping the traditional social and economic structures of rural communities, in both positive and negative ways. Communities are extended beyond strict geographic boundaries, and their members abroad are playing an active role—sending remittances, bringing innovative ideas—in the well-being of the rural communities they left behind. At the same time, families are affected by the impact of separation and the absence of the most productive members of the communities.

Many migrants have established continuous social and economic interaction with their communities of origin and play unique roles as agents of change in both their countries of destination and of origin. Governments, financial institutions and international development agencies can no longer afford to ignore the ever-growing impact that financial flows from migrants have on the economic and social development of remittance-receiving countries. They also need to focus on how migration can positively influence the achievement of the development targets set by the Millennium Development Goals (MDGs). In addressing rural poverty, one challenge is to take these new social and economic realities into consideration and integrate them into innovative strategies for promoting rural development. The current economic crisis has revealed the importance migration and remittances have for millions of families that depend on this financial flow for their survival.

B. IMPACT OF THE ECONOMIC AND FINANCIAL CRISIS ON INTERNATIONAL MIGRATION

1. The impact on remittances

After years of steady increases in worldwide remittances, migrant workers and their families are facing new challenges in light of the financial crisis. According to IFAD estimates, global remittances may have declined by as much as 10 per cent in the first six months of 2009, with large differences in the effect of the crisis on individual countries. For the countries hardest hit in regions and major areas, such as Eastern Europe and Latin America, the decline in remittances is threatening the livelihoods of millions of people who depend on funds sent by relatives and friends working abroad.

Despite these challenges, positive aspects remain. Even if decreasing, remittances are proving far more robust than other capital flows. Foreign direct investment to developing countries, for instance, is estimated to have fallen by 50 per cent in the first half of 2009.

Furthermore, of the 31 countries for which IFAD has data, only four countries have shown increases in remittances in 2009. Three of these are in Asia.

The economic crisis is affecting both countries of origin and destination where employment opportunities for migrant workers are disappearing and many have seen their incomes significantly reduced. In the United States of America, for instance, unemployment among Hispanics reached 13.1 per cent by October 2009, while general unemployment in some countries of the European Union (EU) with relatively large migrant population was increasing. The decline in the availability of jobs and the downward pressure on wages are forcing migrant workers to use their savings in order to be able to continue sending money home. When seen against the backdrop of limited economic growth, the expectations of a return to pre-crisis growth in remittances by 2011 poses serious challenges.

2. *The impact on migration*

The crisis has led to a tightening of immigration and labour policies. This implies, on the one hand, that many migrants are losing their jobs and legal status and, on the other hand, that many are less likely to visit their countries of origin fearing that they may not be able to return. As a consequence of increased uncertainty about their legal status, migrants feel increased pressure to make use of informal channels. This has the effect of pushing migrants away from formal financial institutions that can help them advance on the road to financial independence, while also weakening official data on remittance flows.

As a consequence of the present crisis many migrant recipient countries have set up programmes to encourage return migration. While there are workers willing to take the economic packages offered for voluntary return to their countries of origin, these programmes are unlikely to significantly influence the stock of migrant workers in these countries. The reason being that since the economic crisis is affecting both countries of origin and destination, migrants may feel that it is less risky to stay than to return home to countries where unemployment might be even higher.

The tightening of immigration policies in combination with a weaker job market may have discouraged migration. However, since the situation in sending countries has also worsened, people continue to migrate. As a result, the migrant stock (existing migrant stock, plus new migrants, minus returned migrants) is probably increasing. There is not only South-North migration, but there is also South-South migration.

C. RECENT INITIATIVES TO STRENGTHEN THE EVIDENCE BASE ON INTERNATIONAL MIGRATION AND DEVELOPMENT

In 2009, IFAD commissioned a study entitled *Sending Money Home to Africa* to explore the remittance market in Africa. The study covered regulatory issues and the competitive environment in 50 African countries representing 90 per cent of remittance flows to the region. Additionally, the report highlighted the results of a survey of people within the geographical reach of microfinance institutions in 19 countries. The study showed the potential of migration and remittances to spur development in Africa. According to the study, African workers sent home more than US\$ 40 billion each year but restrictive laws and costly fees reduced the effect of remittances to lift people out of poverty. The report was presented at the Global Forum on Remittances 2009, organized by IFAD and the African Development Bank (AfDB) held in Tunis, Tunisia, from 22 to 23 October 2009.

The report showed that while transfer costs had declined significantly in Asia and Latin America, sending money home to Africa was still expensive. In the past, remitting

money had amounted to about 10 per cent of the amount of money being sent but had recently increased to 25 per cent of the amount of money being remitted. African families were amongst those who could benefit the most from the achievement of the goal of the Group of Eight (G-8) to reduce the cost of remittances by 50 per cent over the next five years. The report revealed that the number of payout locations across Africa was the same as in Mexico, which had only a tenth of Africa's population. Between 30 and 40 per cent of all remittances to Africa were destined to rural areas where many recipients had to travel great distances to collect their money. By increasing the number of institutions able to conduct remittances services, including microfinance institutions and post offices, the number of payment points would more than double.

1. Outcome of the Forum on Remittances 2009

At the Global Forum on Remittances, held in Tunis, Tunisia, from 22 to 23 October 2009, six recommendations to improve the African remittances market were developed:

- (a) Increase competition: encourage more actors to enter the marketplace; widen types of payment networks, and discontinue exclusivity agreements when they hamper competition;
- (b) Empower market actors: facilitate market actors' access to payment system infrastructure, to the maximum possible extent; build capacity of market actors to meet regulatory requirements, and foster cooperation and partnership between stakeholders;
- (c) Achieve effective and efficient regulation: ensure that regulations are robust, but also commensurate to the level of risk and to the benefit of all; consult and evaluate impact before regulating; identify and adhere to minimum standards of client protection, and encourage consistent standards of regulations across jurisdictions;
- (d) Adopt new technologies: modernize technology in payout networks; improve payment systems infrastructure and integrate at regional and sub-regional levels; encourage development of standards and interoperability, and minimize the risk for end-users;
- (e) Expand access to financial services: encourage remittance recipients to maintain their assets in financial institutions; promote financial literacy to all stakeholders, particularly to migrants and their families; design financial services with the specific needs of women and men in mind; encourage the ability of the undocumented to access formal financial channels; use the worldwide postal network to give customers access to financial services, and ensure that remittances are not subject to specific taxation;
- (f) Make more financial services available in rural areas: encourage market actors, especially microfinance institutions (MFIs), postal offices, credit unions etc., to act as pay-out locations; build capacity of MFIs and non-bank financial institutions in rural areas to provide remittance services; encourage the ability of MFIs to take deposit of rural savings, and identify specific ways to link rural areas with non-cash (including mobile) instruments.

2. Awareness-raising

In order to raise awareness about the importance of migration and its impact on rural development, in 2008 IFAD, in collaboration with the Food and Agricultural Organization (FAO), published the document *Migration, Remittances and Rural Development*. This report analysed the root causes of rural outmigration, focusing on its economic and social implications. It assumed that mobility was inherent to human existence. Livelihoods and sociocultural changes were intimately connected with population movements. To understand present and fast-developing trends in migration, the paper examined the origins of migratory movements and discerned how such transformations actually affected the natural resource base, as well as how they shaped livelihoods and socio-economic and cultural coexistence. The paper presented an overview of migration and remittance flows, the role of financial institutions in leveraging remittances and the role of transnational communities in the development of communities of origin. Lastly, the paper presented a discussion of future challenges linking migration to climate change and addressed the impact of the spread of disease across borders on agriculture and rural development.

In 2008, in collaboration with the United Nations International Research and Training Institute for the Advancement of Women (UN-INSTRAW), IFAD financed the study *Gender, Remittances and Local Rural Development: The case of Filipino migration to Italy*, which assessed the impact of remittances sent by Filipino migrants in Italy, promoting gender-sensitive local rural community development in the Philippines and supporting capacity-building activities with migrant associations to improve the living conditions of Filipino migrants in Italy. The study further demonstrated that migration and remittances had positive impacts on gender equality in the Philippines, such as economic empowerment of women, as it had increased and diversified the employment opportunities available to them.

In 2007, IFAD published the study *Sending Money Home: Worldwide Remittance Flows to Developing and Transition Countries*. The aim of the study was to highlight the volume of worldwide remittances flows that were unaccounted for by central banks. The report represented a baseline in a series of regional data highlighting the importance of remittances to rural areas in developing countries and their potential to stimulate local economic activity. The study covered more than 150 developing countries and provided comparative indicators to measure the relative importance of remittances among 20 regions of the developing world.

In order to raise awareness on the importance and impact of remittances in rural areas, IFAD produced the documentary *Cash Flow Fever*.¹ The half-hour documentary created for the BBC World's "Life" series in 2005 received an honourable mention at the fifty-fifth Columbus International Film and Video Festival in 2008. The documentary told the story of the Cortez family in the United States and El Salvador and explored the role development projects could play in spreading the beneficial impacts of remittance and the potential of this financial source to reduce poverty. The film continues to be aired by major television networks such as CNN and the Spanish network TVE.

D. CURRENT AND PLANNED ACTIVITIES IN THE AREA OF INTERNATIONAL MIGRATION AND DEVELOPMENT

IFAD has established a multi-donor Financing Facility for Remittances (FFR) for increasing economic opportunities for the rural poor through the support and development of innovative, cost-effective, and easily accessible international and domestic remittance services. The main objective of the Facility is to (a) support projects and activities that reduce the transfer costs of remittances; (b) develop institutional partnership; (c) provide banking

opportunities for rural populations; (d) promote innovative remittance and financial services, and (e) promote productive rural investment of migrants' capital in their countries of origin. To achieve these objectives, the FFR launched competitive annual calls for proposals.

The multi-donor Financing Facility was established in 2006 to maximize the development impact of remittances and to extend financial services into rural areas. The US\$ 15 million facility provides grants of up to US\$ 250,000 for innovative proposals that help migrant workers and their families advance on the road to financial independence.

In 2009, the FFR completed its third call for proposals for which 320 concept proposals were submitted. The inclusion of approved proposals in 2009 is expected to bring the total number of projects financed by the FFR to 40. Each of these projects was selected because of their unique contribution to expanding rural financial access through a broad range of mechanisms. The FFR projects cover such areas as mobile banking, domestic remittances, migrant investment and expansion of financial access through microfinance institutions and postal offices, as well as projects specifically focusing on addressing gender issues.

In 2009, for the first time, the call for proposals was opened to private sector actors who channel funds. Helping these companies to modernize, innovate and reach out into rural areas helped drive down the cost of remittances while expanding their geographical reach. Projects from private sector actors in Madagascar, Nigeria and Sri Lanka were selected from the 2009 call for proposals.

Sending Money Home to Africa, the FFR report presented at the 2009 Global Forum on Remittances, highlighted the significant role which can be played by postal offices. As a result of cooperation between the Algerian and French postal services, post offices had become the main pay-out locations in Algeria. The dense network of post offices, result in the highest rural coverage of financial services in any African country. A project under development in Morocco seeks to further test this model's applicability in other African countries.

While international remittances are highly significant, regional and domestic remittances are equally vital. For example, the amount of money that flows between China's cities and its countryside dwarfs most international remittance corridors. Picking up these remittances can require a long journey to the nearest pay-out location, especially in more remote mountainous regions. The resulting travel time and costs required to receive remittances reduce their potential impact. For this reason, the FFR selected a project which seeks to address the costs of retrieving money from payout locations in China, a country with significant internal migration flows.

Lastly, mobile banking represents an opportunity to leapfrog over some of the most difficult and costly bottlenecks that prevent rural families from maximizing the benefits of the money they receive. In the 2009 call for proposals, both domestic and international mobile money transfer projects were supported. By exploring new partnerships between different service providers, FFR projects intended to go beyond using mobile telephones as a payment platform. The projects planned to give families of migrant workers the essential tools they needed to use this new technology to advance on the road to financial independence. The Facility will launch a new call for proposals in 2010.

Among other activities supported by IFAD were:

- (a) The Global Forum on Migration and Development (GFMD). IFAD supported the organization of the three past Global Forum meetings through its participation in the Friends of the Form meetings as well as through the preparation of background papers for roundtables organized within the context of the Global Forum. Most

recently, IFAD supported the preparation of the paper *Engaging diasporas and migrants in development policies and programmes*, prepared for roundtable session 1.2 of the Global Forum meeting held in Athens, Greece, in November 2009;

- (b) Migration, Remittances, and Development in Africa Project. IFAD has been co-financing this multi-donor project initiated by the World Bank. The objectives of the Project have been to: (i) improve understanding of migration and remittances in sub-Saharan Africa, including their magnitude, causes and impacts on poverty reduction, with a view to generating informed policy recommendations, and (ii) strengthen the capacity of policymakers, researchers, financial institutions and donor agencies in Africa to enhance the development impact of remittances. The most visible output of the Africa Migration Project will be a flagship report jointly published by the World Bank and the African Development Bank. This report will be organized in five chapters focusing on: (i) mapping migration and remittances phenomena in sub-Saharan Africa; (ii) remittances; (iii) outmigration or emigration of highly-skilled persons; (iv) resources of transnational communities other than remittances, and (v) policy recommendations. The report will be based on the results of remittance services providers surveys and migrant household surveys in selected African countries, as well as a survey of 176 central banks worldwide on remittances. The report will be launched in 2010;
- (c) The migration and development initiative. Recently, IFAD co-financed a multi-donor trust fund with the African Development Bank and the Government of France. The purpose of the initiative is to provide financing in order to: (i) improve knowledge on migrant remittances in Africa; (ii) provide support to reforms of the regulatory frameworks required to improve transfer conditions; (iii) develop financial products, and (iv) provide support for productive investment and local development in the migrants' countries of origin.

NOTE

¹ For the video, see <http://www.ifad.org/media/video/> (accessed 4 May 2010).

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