

MIGRATION AND REMITTANCES IN THE GLOBAL ECONOMY: A EUROPEAN VISION

Presentation by Antonio de Lecea at the WSBI / MIF conference
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0) Introduction

To present a European vision on migration and remittances in the global economy is a **challenging subject**. But the closing session of such a high level conference is a good moment to recall the challenges of migration and remittances and to take a look beyond this conference's core subjects.

Let me therefore express **my appreciation to the organisers** for this opportunity.

In my presentation, I will first comment on **remittances as a major policy issue**. I will then turn to **changing trends** of migration and the ways they are likely to impact on migration flows. I will then focus on **the three main policy areas** that have an important bearing for migration, i.e. *competitive functioning of financial services, development of financial intermediation and financial inclusion of migrants, and prevention of abuse*.

1) Remittances as a policy issue

Over roughly the past two years, remittances have made **an impressive progression up the policy agenda**. Not least due to conferences like this one, the issue has attracted the awareness of academics, practitioners and policy makers.

We have to admit self-critically that this revival of interest originated in relation to the flows between Anglo America and Latin America. It took us somewhat longer in Europe to rediscover the relevance of remittances. I say rediscover, because remittances had received significant attention in the traditional emigration countries in Europe for a long time.

When the leaders of the G8 –the eight major industrial countries- met at their annual Summit at **Sea Island** last year, they called for facilitating remittances and enhancing their development impact. This call was soon echoed at the Forum for the Future with countries from the **Broader Middle East and North Africa** and at the **Guadalajara** Summit with Latin American and Caribbean Countries.

The Commission welcomes the increased attention to remittances. The empirical literature usually finds a **positive development impact** of remittances, even when one takes into account the loss of labour force and human capital in emigration countries.

Remittances help their recipients to cover basic needs such as food, housing and health care. But they also allow human and productive investment since they often contribute pay for the education of the children and in some cases to buy land or create a business.

Remittances can and should increasingly flow into productive investment. This is indeed desirable, and the conditions for such investment need to be improved. However, even if they are spent for consumption, remittances still have multiplier effects in the receiving economy.

Since the evidence is clear that remittances contribute to the **reduction of absolute poverty** (measured e.g. by the number of persons living on less than one USD/day). Whether remittances also reduce **inequality** seems to depend on the cost of migrating: If the poor get the chance to migrate, remittances will reduce inequality.

The development potential of remittances is, I believe, huge. But **some words of caution** are necessary on the policy attention remittances are now attracting. Those that see remittances as “*the new development mantra*”, as a working paper for UNCTAD recently put it, risk being disappointed.

Despite the very substantial size of remittance flows, they will not bring a magical solution to development problems.

We can – and should – reduce barriers to remittance transfers and to broaden the possibilities of their use at the receiving end.

Furthermore remittances will flow to productive investment if and only if the conditions for investment in the receiving country are adequate. Improving the investment climate in recipient countries is, however, not a quick fix, but part of a more comprehensive and long-term development approach.

We must also be cautious to avoid confusion. Some look at flows of foreign direct investment, charitable donations, remittances and official development aid, as if all this was almost the same. I am concerned that this confusion might in some cases be voluntary. But remittances are private money, and private money is a complement rather than a substitute for some essential public expenditure. The necessary work on remittances should not **deflect the attention** from the need to substantially increase official development aid if we want to reach the Millennium Development Goals by 2015. **Remittances must not serve as an excuse for neglecting development aid.**

2) Past and future migration and the way it shapes remittance flows

But let me take a step back for a moment to have a look at the bigger picture of migration and remittances trends.

- Firstly, **migration flows** are shaped – to a large extent – by the **difference in economic development** between the emigration and the immigration country, by the **perspectives and political stability** in the emigration country more generally, and by the **immigration policy** of the destination country.

Globally, migration will continue to be shaped by the differences in the economic outlook. The economic catching-up of **big emerging market economies** – in particular India and China - with huge diasporas abroad will raise the question of eventual return migration. But **other parts of the world lack such positive development perspectives.**

Differences in **demographic developments** add to the push and pull factors for migration. It is difficult to see how the labour markets of many developing countries will be able to absorb the number of youth looking for their first job.

In the North, the labour force is ageing and will decline over time. However, the needs in Northern labour markets are often for very specific skills. This has led to the current debate about selective and managed immigration.

- This brings me to a second point: the **composition of migration** will matter as much as its size for determining remittance flows. Migrants remit money to those who are close to them, usually members of their family who stayed behind. This is why not only the migration flows, but also their composition is important: Is migration temporary or permanent, does the close family stay behind or follow, is it the high- or the low-skilled who migrate?
 - **Family reunion** for instance has started to weigh on remittances from the EU to Turkey and North Africa.
 - Looking ahead, the **retirement** of the first generation of migrants will also affect remittance flows to the Mediterranean region.
 - **High-skilled migrants** often send a smaller share of their income home. Therefore, if European Countries chose to apply selective immigration schemes, this will also affect remittance flows.
 - But if selective measures are applied, then where will the low-skilled then migrate?
 - Another dimension of migration is often neglected in the remittances discussion, maybe because we do not have good data on them: This is **South-South migration**. Yet the second remittance-sending country after the US is Saudi Arabia, with 15 billion US Dollar sent in 2003.

3) The main policy dimensions

After these more general thoughts, let me now turn to the core issues of this conference and to the conclusions that I draw for remittance policies. There are in my view **three major policy issues**.

i) Competitive market functioning

The first major policy issue is competitive market functioning, and in fact many of the contributions to this conference were concerned about various aspects of the proper functioning of the remittances market.

The policy objective is obviously to **bring transfer costs down** so as to increase the share of the money that arrives at destination – and to encourage sending money in the first place.

Competition among the providers of remittance services should bring that cost reduction about.

Technology is also creating alternative competitive channels and **potential of cost reduction**. To send money, it is no longer necessary to queue at the office of the transfer agent, nor for the receiver to go to his agent's office. **Prepaid and credit cards, the internet, even cellular phones** are now competing with the classical brick-and-mortar outlets. However, the use of technology requires prior investment. And all this will not help us if the addressee of the transfer lives in a remote and underdeveloped area with little infrastructure that allows him to get to his money. The incentives for investment are clearly higher if banks or payment service companies can enjoy exclusive rights. But this reduces competition.

Public authorities must ensure the appropriate framework is there to **help competition work**.

- Increasing the **transparency** of the market and its products plays a key role. **Remittance principles** that would work as a voluntary quality standard and that would involve full clarity about fees - including those collected at destination - and exchange rates would be an important contribution here. I am looking forward to further work on that issue at the Inter-Agency Task Force later today.
- It was also deplored that **official data on remittance flows are patchy, often of mediocre quality and blind to alternative remittance channels**. Collecting and publishing better data has at least two functions: Firstly, it helps policy-makers to **take informed decisions**. Secondly, as shown by the Latin American experience, data on flows in particular remittance corridors can act as **a wake-up call** to the financial industry that there are business opportunities out there. The Commission is working in various international fora to improve the **framework for data collection**. But we are not idle while waiting for the results of this longer-term work. We have just launched the second round of a survey of remittances originating from the EU.
- Then there is the issue of regulation. Even within the EU with its largely integrated financial markets, the regulation of remittance services varies substantially from one country to another. The Commission plans to **create a level playing field** with uniform licensing provisions throughout the union.

ii) development of financial intermediation and financial inclusion

The second area is financial inclusion, both of the migrants and of their family at home. A session on the first day was devoted to **reaching out to migrants**, who are often unbanked.

- In some cases the reason is poor information: many migrants are not aware of all the options for remitting money and for value-added financial products that are available to them.
- Or they do not trust the official financial sector, perhaps due to bad experiences at home. Information campaigns can certainly be useful in this respect. The example of outreach of US banks to illegal immigrants and the acceptance of the "*matrícula consular*" as proof of ID were also mentioned.

In the remittance-receiving countries, banks are not necessarily where the potential customers are. It is therefore a real challenge to get the remittances out of the piggy banks and onto proper bank accounts. We have learned about **innovative schemes** and heard interesting

examples of **cooperation between banks and microfinance institutions** to bring financial services to remote areas.

Financial intermediation is also crucial. A functioning financial sector can channel the savings of remittance receivers to invest the remitted amounts or to set up a business. This is why it is so important to develop the outreach of financial institutions to the receivers of remittances, even in remote areas.

As I mentioned earlier, the **investment climate** in countries that receive substantial remittances is crucial to channel funds into productive uses. Many emigration countries are plagued by overregulation, or by the lack of an efficient regulatory framework – for instance on the protection of property rights – and by poor governance. Recently published World Bank governance indicators illustrate the problem.

It takes a **comprehensive approach** to tackle these issues at the heart of under-development. **And it will take time** to reap the results.

As part of its development aid, the EU is co-financing projects in Morocco and Mali where collective remittances of diaspora organisations are invested in local public goods (e.g. electrification).

The Commission has also set up the a programme, called AENEAS, to assist third countries in the area of migration and asylum. It supports initiatives designed to reduce transfer costs of remittances and to facilitate the use of remittances for productive investment and development initiatives.

iii) prevention of abuse

Third and final, an **intransparent remittance market offers possibilities for abuse.** The potential use of informal remittance channels for the financing of terrorism is an issue that we take very seriously. We should at all costs avoid the misinterpretation that migrants who remit money through corner shops are usually either criminals or terrorists. But the very intransparency of informal money transfer systems makes it relatively easy to hide illicit transfers in the mass of legitimate ones.

By improving the functioning of the official remittance market, we hope to **make official transfers more attractive** than all sorts of informal ones. In addition, a regulatory level playing field is needed. Finally, it takes legal safeguards against money laundering and the financing of terrorism.

The European Parliament is currently debating the Commission proposal for a **Third Money Laundering Directive.** This Directive will also bring EU legislation in line with recent international standards in combating the financing of terrorism. I believe that we have managed to strike the delicate balance between efficient safeguards against illicit activities and giving the remittance market the necessary room to develop.

4) Conclusions

Let me conclude by very briefly summarising what I see as the main points.

- Remittances are and will remain a major flow of funds to developing countries – **a huge potential** that needs to be better used. Efforts to facilitate remittances and to reap their development potential need to be stepped up.
- **This will create business opportunities. Innovative ideas** are needed to strengthen financial intermediation and investment opportunities at the sending and the receiving ends of remittances channels.
- Patterns of migration have always been subject to change. **Remittance flows will reflect the changing flows and composition of migration.**
- Policy makers must **create a level playing field** for the providers of remittance services. We need to improve the framework for market functioning, in order to address the intransparency and high costs that still plague many remittance corridors.

I believe **this conference** was an opportunity for learning and exchange of views on the potential offered by remittances. I do hope that the new insights will be fruitful for business participants and policy makers alike.

Thank you very much for your attention.