



# Sending Money Home: Contributing to the SDGs, one family at a time



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The designations “developed” and “developing” countries are intended for statistical use only, and are not a judgement on the stage of development reached by any particular country or area. The classification of the World Bank was used, specifying that developing countries include the categories of upper-middle-income economies and below.

The regions and subregions per continent specified in this report use the classification indicated in the United Nations Statistics Division Database.

Since most of developed countries send and receive remittances, to accurately reflect the impact these flows have in low-income and developing countries of destination and to avoid counting flows of remittances from high-income countries to other high-income countries, a threshold of US\$18,000 per capita per year was introduced. This threshold implies minor differences with the World Bank’s remittance database. This report includes two categories of developed countries:

- *Sending countries:* Countries with GDP per capita above US\$18,000 and net remittance-sending countries with a GDP per capita below US\$18,000 (e.g. the Russian Federation). This category excludes countries where personal payments are sent from individuals living in high-income countries to relatives in other high-income countries, (e.g. the United Kingdom to France, or Germany to the United States).
- *Receiving countries:* Countries with net remittance receivers with a GDP per capita below US\$18,000.

In this report, the World Bank’s Remittance Prices Worldwide database was used as the main source of data on remittance-sending costs. It is the most comprehensive source of information for data on costs and remittance service providers (RSPs) present in the global market. Although representative, this database should not be taken as an exhaustive repository of RSPs present in the market.

The designations and presentation of the material in the maps do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delineation of the frontiers or boundaries, or the authorities thereof.

ISBN 978-92-9072-751-4

IFAD, June 2017

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## Concepts and definitions\*

*Access point:* A physical location where remittance recipients can collect their money or cash-in and cash-out to/from any stored-value device (e.g. a bank branch, post office, mobile network agent, retail store or self-service machine).

*Agent:* An entity that captures or distributes remittance transfers on behalf of a remittance service provider (RSP).

*Anti-money laundering/Combating the financing of terrorism (AML/CFT):* Policies to detect and reduce money laundering and terrorism financing.

*Banking institution or Bank:* A financial institution holding a banking license.

*Blockchain:* An open, distributed ledger that can record transactions in digital currencies (or tokens) between two parties and encrypted within “blocks” in a verifiable and permanent way. Bitcoins are one of the digital currencies used in blockchains. Applied to remittances, blockchains allow cross-border remittances among registered individuals or businesses without bank settlement and clearing systems.

*De-risking strategy:* The phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients in order to avoid rather than manage risk (Financial Action Task Force).

*Diaspora:* A community of people who live outside their country of origin and maintain a connection to their homeland or ancestry. Diaspora communities often remain emotionally and financially connected to their home communities. Migrant workers are also included within the category of diaspora.

*Diaspora investment:* The savings set aside by diaspora members with the purpose of financing personal projects in their home countries to improve their wealth, and generate financial returns or impact on development.

*Financial inclusion:* The effective access to basic financial services, such as payments, savings (including current accounts), credit and insurance provided by regulated financial institutions to all working-age adults. Effective access is defined as a “convenient and responsible service delivery, at a cost affordable to the customer and sustainable for the provider, enabling previously financially-excluded customers to use financial services rather than existing alternative, unregulated options” (GPFI, CGAP, 2011).

*FinTech:* A broad term referring to technologically-enabled financial innovation that results in new business models for financial services (GPFI, 2017).

*Fragile state:* A state with weak capacity to carry out the basic functions needed for poverty reduction and development, and for safeguarding the security and human rights of its populations and territory, and that lacks the ability or political will to develop mutually-constructive and reinforcing relations with society (OECD/DAC, 2010). Post-conflict countries are often referred to as a special case of fragile states.

*Migrant worker:* “A person who is to be engaged, is engaged or has been engaged in a remunerated activity in a State of which he or she is not a national.” (United Nations)

*Migration flows:* Cross-border movement of citizens from one country to another.

*Money service businesses (MSBs):* Regulated non-bank financial institutions that transmit or convert money. They include money transmitters, payment instrument sellers, stored-value providers, check cashers, issuers or sellers of traveler’s checks or money orders and currency dealers or exchangers.

*Money transfer operator (MTO):* A service provider that receives payment in cash, digital payment or by bank transfer, from the sender for each transfer (or series of transfers) without requiring the sender to open an account.

*Mobile network operator (MNO):* A provider of wireless communication services that can also play a role in transferring remittances through the mobilization of its agent network as access points and as an issuer of electronic money.

*Non-Bank Financial Institutions (NBFI):* A financial institution that does not have a full banking license but they facilitate bank-related financial services, such as investment, risk pooling, contractual savings, and market brokering.

*Online service:* Method to remit money using the Internet or the telephone network as access channels; bank account or credit/debit/prepaid cards as funding sources; and computers, phones or smartphones as access devices. Online services replace physical and in-cash interactions by remote electronic transactions.

*Payment institution (PI) (or establishment):* In the European Union, a specific category of non-bank institutions allowed to handle payment operations including remittances.

*Postal networks:* Association between postal banks and postal organizations to use post office networks as delivery channels for postal or MTO remittance products.

*Remittance corridor:* Also known as remittance market, it specifies the remittance flow between an originating country (or region) and a receiving country (or region).

*Remittance families:* Transnational households composed of migrant workers who send remittances and their relatives who receive them in their countries of origin.

*Remittance outflow:* Flow of remittances leaving a country.

*Remittance inflow:* Flow of remittances coming into a country.

*Remittance service provider (RSP):* An entity, operating as a business that provides a remittance service for a fee to end-users, either directly or credited to an electronically-funded account, or partnering with agents owning access point networks such as stores, post offices or bank branches to collect the money to be sent.

*Remittances:* Cross-border, person-to-person payments of relatively low value. The transfers are typically recurrent payments by migrant workers to their relatives in their home countries to cover a substantial part of their daily expenses.

*Retail store:* A physical structure with the primary purpose of selling goods.

*Rural presence:* The extent of geographical coverage of a payout network in rural areas of a country.

*Sustainable Development Goals (SDGs):* A set of 17 “Global Goals” with 169 targets between them. Spearheaded by the United Nations through a deliberative process involving its 193 Member States, as well as global civil society, the goals are contained in paragraph 54 of United Nations Resolution A/RES/70/1 of 25 September 2015.

# Acknowledgements

The findings in this report are based on a series of studies and surveys commissioned by the International Fund for Agricultural Development (IFAD) and on analyses of World Bank data undertaken by IFAD.

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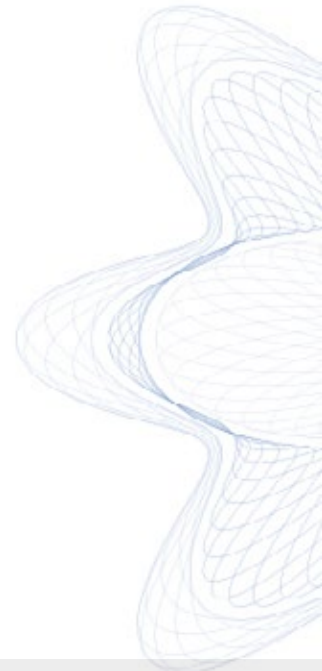
## **International Fund for Agricultural Development (IFAD)**

IFAD invests in rural people, empowering them to reduce poverty, increase food security, improve nutrition and strengthen resilience. Since 1978, IFAD has provided US\$18.5 billion in grants and low-interest loans to projects that have reached about 464 million people. IFAD is an international financial institution and a specialized United Nations agency based in Rome – the UN’s food and agriculture hub.

## **Financing Facility for Remittances (FFR)**

The IFAD-administered US\$35 million, multi-donor Financing Facility for Remittances (FFR) is composed of the Consultative Group to Assist the Poor, the European Commission, the Government of Luxembourg, IFAD, the Inter-American Development Bank, the Ministry of Foreign Affairs and Cooperation of Spain, the United Nations Capital Development Fund and the World Bank. The FFR works to increase economic opportunities for poor rural people by supporting and developing innovative, scalable, cost-effective and easily accessible remittance services that promote financial inclusion and productive investment in rural areas. Currently the Facility’s portfolio includes almost 50 projects in more than 40 countries across the developing world.

For more information, please visit  
[www.ifad.org/remittances](http://www.ifad.org/remittances)  
[www.remittancesgateway.org](http://www.remittancesgateway.org)



# Key findings

This report provides data and analysis of remittances and migration trends for developing countries over the past decade, as well as the potential contributions of remittance families to reaching the SDGs by 2030.

## Contributing to the Sustainable Development Goals (SDGs)

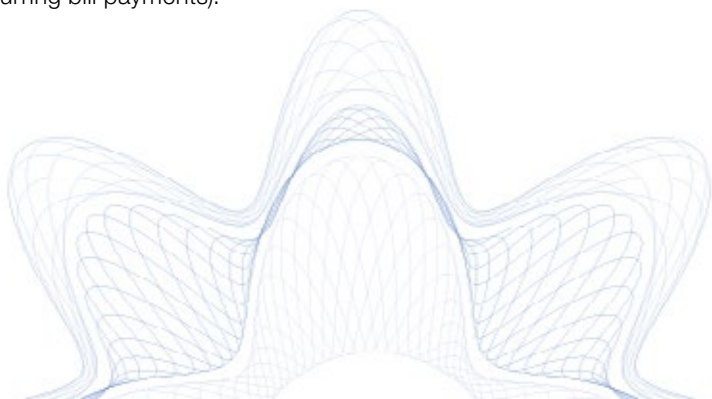
- Between 2015 and 2030, an estimated US\$6.5 trillion in remittances will be sent to low- and middle-income countries.
- Most of these resources will be used by remittance-receiving families to reach their own individual goals: increased income, better health and nutrition, educational opportunities, improved housing and sanitation, entrepreneurship, and reduced inequality.
- Regular remittances lift most families above the poverty line and help them avoid falling back into “poverty traps.”
- About three quarters of family remittances are used to cover immediate basic needs (food, shelter and recurring bill payments).

- More than US\$100 billion in remittances is available to cover long-term goals such as education and health (10 per cent) and for savings and investing in housing, small assets and other income-generating activities (15 per cent).
- Although progress has been made, transaction costs remain far below the SDG target 10.7c of 3 per cent by 2030.
- Women now comprise about half of all remittance senders (100 million). This trend can help advance gender equality and women’s empowerment through financial independence and better employment opportunities.
- The potential impact of migrant remittances, savings and investments in helping to reach the SDGs can only be fully realized in partnership with coherent public policies and priorities, coupled with private-sector initiatives.
- Leveraging the linkages between remittances and financial inclusion presents an important opportunity to create convergence between the financial goals of remittance families and the commercial strategies of financial service providers.

## Global trends (2007-2016)<sup>1</sup>

- Global remittances to developing countries increased by 51 per cent, while the number of migrants from these same countries increased by 28 per cent and the populations of those countries of origin increased by only 13 per cent.
- Remittances to, and migration from, the Asia-Pacific region reflects dynamic change during this period. Inflows to the region increased much faster (87 per cent) than its migration (33 per cent).
- In comparison, European remittances (5 per cent) and migration (19 per cent) had the smallest increases of any region.
- These numbers also indicate that individual migrants from Asia-Pacific are sending on average more money home on a regular basis, while the reverse is true for migrants in Europe, who are sending less.
- Growth in remittance flows to Africa (36 per cent), Latin America and the Caribbean (18 per cent), and the Near East and Caucasus (37 per cent) are consistent with their increase in migration, respectively 33 per cent, 21 per cent and 38 per cent.

<sup>1/</sup> Data for 2007-2016 are grouped into two general categories: the remittance “sending side” of over 40 host countries to migrant workers from low- and middle-income countries, and the remittance “receiving end” of 144 countries of origin. More than 80 per cent of the world’s population lives in countries on the “receiving end.”



## Remittance flows... on the sending side

- There are about 200 million migrants from low- and middle-income countries, who send money to their families back home.
- Remittance flows have grown over the past decade at a rate averaging 4.2 per cent annually, from US\$296 billion in 2007 to US\$445 billion in 2016. This growth occurred despite economic dislocations, first caused by the 2008 financial crisis, and more recently by reduced revenues to oil-producing countries and currency market fluctuations.
- This overall growth pattern is associated primarily with the continued need for immigrant labour from developed countries due to their ageing populations and improved reporting of remittance flows.
- Migrant workers and their relatives have demonstrated remarkable resilience and resourcefulness in adapting to economic downturns in order to maintain a relatively steady level of support for their families.
- The top ten sending countries<sup>2</sup> account for almost half of annual flows: United States, Saudi Arabia, the Russian Federation, United Arab Emirates, Germany, Kuwait, France, Qatar, United Kingdom and Italy.

- Among the most noteworthy corridors are:
  - (i) United States to Asia and Latin America;
  - (ii) Gulf Cooperation Council (GCC) countries to Asia; (iii) Europe to East-Central Europe and to Africa; and (iv) the Russian Federation to Central Asia.
- Europe is also the main source of remittances to a number of fragile states in Africa, Asia, and the Middle East.
- These flows account for more than three times the combined official development assistance from all sources, as well as more than the total of foreign direct investment to almost every low- and middle-income country.
- Remittances sent from developed countries account, on average, for substantially less than 1 per cent of their individual GDP.
- Total migrant worker earnings are estimated to be approximately US\$3 trillion annually, of which about 85 per cent remain in the sending countries.
- While the overwhelming volume of remittances comes from high-income countries (North-South), there may be an equal number of migrant workers living in low- and middle-income countries, also sending money home (South-South), but generally in much smaller amounts.
- More than half of all migrants from Asia, Africa and the Near East remain (and send money) within their home continent.
- While reporting on North-South remittances has improved significantly over the past decade, large gaps remain for South-South flows, particularly within sub-Saharan Africa.

## Remittance flows... on the receiving end

- An estimated 800 million people worldwide are directly supported by remittances.
- Taken together – senders and their families back home – 1 billion people are directly involved with remittances: one out of seven people in the world.
- Remittances typically represent about 60 per cent of household incomes.
- Eighty per cent of remittances are received by 23 countries, led by China, India, the Philippines, Mexico and Pakistan.
- The most dynamic growth in remittances over the past decade has been in Asia, which now receives 55 per cent of all flows.
- For 9 countries, remittances equal more than 20 per cent of GDP. For 71 countries, they equal more than 3 per cent of GDP (2015).
- There are 100 countries that receive more than US\$100 million annually.
- Countries on the receiving end have over 80 per cent of the world's population.
- For most of these countries, the majority of their population lives in rural areas.
- Forty per cent of total remittance flows go to rural areas, which benefits the agriculture economy, improves food security and generates employment opportunities, particularly for young people.

2/ In 2015. For the United Arab Emirates in 2014.

## Markets

There is no single globally-integrated remittance market. Instead, there is a “loose network” of hundreds of individual corridors linking sending and receiving countries.

### Cost

- The average cost of sending remittances is now at 7.45 per cent, a measurable decrease from 9.8 per cent since 2008. However, transaction costs have remained essentially flat over the past few years and are unacceptably high in many low-volume corridors.
- By reducing average costs to below 3 per cent globally, remittance families would save an additional US\$20 billion annually.
- The lowest transfer costs (below 2 per cent) are from the Russian Federation to Central Asian States, taking advantage of the former Soviet Union’s integrated payment system. The highest are both to and within the African continent, particularly from South Africa (about 14.6 per cent).
- Higher transaction costs are most common in the poorest countries and rural areas, which often lack adequate remittance infrastructure.

### Remittance service providers (RSPs)

Over the past decade:

- Cash-to-cash remains the most common form of transfer (90 per cent), although more remittances are starting to come from accounts.
- The type of RSP most used has shifted significantly towards money transfer operators (MTOs) in almost all sending countries.
- MTOs are generally much less costly than banks to send remittances.
- The number of RSPs has grown dramatically to over 3,000 worldwide. Almost all this increase is due to small RSPs that do business in one or two countries.
- At the same time, there is an increasing concentration of market share, currently at 35 per cent, in three global MTOs (MoneyGram, RIA, and Western Union) and two regional MTOs (UAE Exchange and Unistream).
- Payout locations have increased over 400 per cent in the top 23 remittance-receiving countries (from 350,000 to 1.5 million), extending the reach of MTOs to many more corridors.
- Informal transfers through non-licensed channels have declined significantly, as costs decreased and payout locations became more convenient. However, informal transfers still remain a common method in South-South transactions as well as in other low-volume corridors.

- “De-risking” is the term used to describe the process of banks terminating relationships with many small MTOs. In doing so, banks are actually exacerbating anti-money laundering (AML) and combating financing of terrorism (CFT) concerns by driving remittance flows into informal channels that are much more difficult to track.
- Postal systems have an underutilized network which could potentially play a much more prominent role, particularly in rural areas.
- The use of exclusivity agreements has declined significantly, but in some markets continues to constrain competition.

### Technology

- Technological advances have made remittance transactions faster, cheaper and more convenient, making it possible to reach even into the “last mile” of many remote areas.
- The full promise of technology is yet to be realized, substantially due to the need to harmonize legal and regulatory frameworks between sending and receiving countries, as well as a lack of infrastructure in a number of receiving areas.
- Mobile phone networks, Internet-based tools and digital money in various forms present a potentially transformative force for sending and receiving remittances, reducing costs and saving time. They can also become a gateway to financial inclusion.



## Asset-building

- Saving and investing is a primary way for remittance-receiving families to reduce vulnerability in their lives and to secure a more stable future.
- Small investments, when multiplied, can change the economic landscape of local communities.
- Even though the majority of remittance families live outside the formal financial system, it is estimated that up to two thirds of senders still are able to save, and about 15 per cent of the remittances they send are used back home for income-generating activities.
- On the receiving end, migrant families also save. It is estimated that at least 10 per cent (US\$45 billion) is saved each year, much of it informally (under the mattress).
- Remittance recipients are not typical microfinance clients. Despite higher resilience to financial shocks, they require differentiated services from financial service providers (FSPs) that are still not fully available, particularly in rural areas.
- The ultimate goal is to provide more families with better opportunities to use their remittances productively, benefiting themselves, their families and the communities where they live.

## Refugees

- The number of refugees has been growing steadily over the past several years, now reaching an all-time high at more than 21 million.
- Although refugees and migrants may have different legal status, they share many of the same challenges, including effective access to finance, employment opportunities and uncertain futures. They also have strong ties back home, because no matter how many people leave, more remain behind.
- Today's refugee and/or migrant can be tomorrow's diaspora investor or returnee, with the knowledge and the experience to start a business.

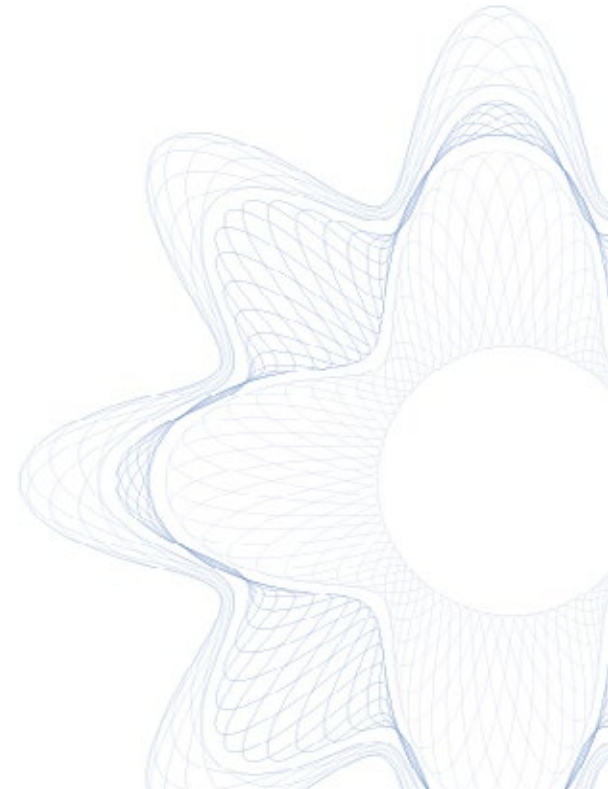


Figure 1: Global remittance flows and trends to developing countries, 2007 and 2016

<b>Near East and the Caucasus</b>	2007	2016	Trend
Total number of migrants (millions)	13.7	18.9	38% ↗
Total remittances (US\$ billion)	17.9	24.6	37% ↗
Near East – Turkey	2.1	1.2	-44%
Near East/Caucasus	3.8	3.5	-8%
Near East/Middle East	12.0	20.0	66%
Share of global remittances	6%	6%	

<b>Europe</b>	2007	2016	Trend
Total number of migrants (millions)	21.7	25.9	19% ↗
Total remittances (US\$ billion)	41.6	43.5	5% →
Eastern Europe	26.7	30.4	14%
Northern Europe	3.7	3.1	-16%
Southern Europe	11.2	10.0	-11%
Share of global remittances	14%	10%	

<b>Latin America and the Caribbean</b>	2007	2016	Trend
Total number of migrants (millions)	27.3	32.9	21% ↗
Total remittances (US\$ billion)	61.7	73.1	18% ↗
Caribbean	6.8	10.4	51%
Central America	12.3	18.3	48%
Mexico	26.9	28.5	6%
South America	15.7	15.9	1%
Share of global remittances	21%	16%	

<b>Africa</b>	2007	2016	Trend
Total number of migrants (millions)	25.5	33.0	29% ↗
Total remittances (US\$ billion)	44.3	60.5	36% ↗
Central Africa	0.2	0.3	53%
Eastern Africa	2.4	5.2	117%
Northern Africa	19.2	27.6	44%
Southern Africa	1.6	1.1	-34%
Western Africa	20.9	26.3	26%
Share of global remittances	15%	13%	

<b>Asia and the Pacific</b>	2007	2016	Trend
Total number of migrants (millions)	58.2	77.1	33% ↗
Total remittances (US\$ billion)	130.1	243.6	87% ↗
Central Asia	4.3	6.4	49%
Eastern Asia	38.6	61.3	59%
The Pacific	0.5	0.6	41%
Southern Asia	55.1	111.5	102%
South-Eastern Asia	31.7	63.9	102%
Share of global remittances	44%	55%	

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delineation of the frontiers or boundaries, or the authorities thereof.

# Family remittances – Overview

## Numbers

This is the fifth in a series of *Sending Money Home* reports issued since 2007 by IFAD and its partners. Over this period, migration and remittances have become an important item on development agendas for governments and international organizations.

This report is directly relevant to two current United Nations initiatives: the Global Compact on Migration and the 2030 Agenda for Sustainable Development. Migrant workers and their families back home are essential to the success of both endeavours.

Over the past decade, attention has focused primarily on the “sending side,” particularly the aggregate volumes and transaction costs of sending family remittances, essentially from developed to developing countries (North-South). The global dimension of this phenomenon is impressive: over US\$450 billion is projected to be sent this year, more than three times official development assistance (ODA).

The potential impact of remittances can only be fully realized in concert with coherent public policies and priorities, coupled with civil society and private-sector initiatives.

As the size of remittance flows became evident, increased competition and technological advances have helped reduce transaction costs, particularly in high-volume corridors. Several issues still require attention, including lack of basic data for most sub-Saharan countries, excessive costs for sending South-South remittances and counterproductive regulatory barriers to innovation.

However, the most important objective going forward should be to leverage the potential development impact on the receiving side by providing remittance-receiving families better opportunities to use their money productively.

UN DESA estimates that more than 250 million people currently live outside their countries of origin. Less than 10 per cent of these individuals are estimated to work in the “high end” of the international economy, and were mostly born and/or educated in developed countries. In comparison, there are almost ten times as many migrants from developing countries who leave home to generally take on the often “dirty, difficult or dangerous” jobs available at the “low end” of the international economy.

Taken together, remittances are believed to directly touch the lives of 1 billion people on earth. It is these remittance families who collectively form the “human face of globalization.”



Despite the focus on the aggregate flows of remittances, in reality it is the individual US\$200 or US\$300 sent home regularly, which, if leveraged, can most effectively improve the living standards of migrant families and their communities back home.

## Migrants matter

Migrants are most often referred to as migrant workers because that is what they do: WORK. The unprecedented levels of migration in the twenty-first century are primarily driven by demographics and income inequality.

Developed countries have ageing populations, which require immigrant labour to fill many jobs in important sectors. Construction, agriculture, energy, hospitality, child and elder care, and general maintenance are the most prominent.

In contrast, developing countries have extremely high youth unemployment levels (often more than twice the average national rates). Coupled with systemic income inequality, migrants are “pushed” towards better income-generating opportunities.

Additionally, in coming years climate change is expected to create millions of “environmental migrants,” particularly from rural areas. Conflict areas will continue to create more migrants and refugees, as well.

Migrant workers, then, are the key players in a classic labour market wherein developed countries need workers and people from developing countries need jobs.

Unfortunately, immigration and labour laws and regulations in many developed countries do not recognize the demographic reality of their own domestic labour markets, resulting in resentment by many workers who have lost jobs to technological innovation and/or global competition. Migrant

*Now is the time to fully engage the ambition of about 200 million migrants who send money home and bring to scale their remittances and savings to help reach the SDGs by 2030: One family at a time.*

workers are unfairly characterized as stealing jobs, lowering wages or draining economic resources from host countries.

The opposite is actually true. Migrant workers typically send home about 15 per cent of their earnings as remittances. The remaining 85 per cent – about US\$2.5 trillion annually – stays in host countries, and is mostly spent on housing, food, transportation, taxes and other necessities.

Through their work and income, migrants are essential to the economic well-being of their host countries.

Migrant workers are even more important to their countries of origin. On a national level, remittances currently exceed 3 per cent of GDP in 71 receiving countries, and total more than US\$100 billion in 100 countries.

More importantly, this 15 per cent of migrants’ earnings maintains millions of receiving families above the poverty line. As a result, most of these families typically have better health, education and housing outcomes.

It is at the local level of small towns, rural villages and urban neighborhoods that remittances “count the most” and it is here that remittances can help make migration more of a choice than a necessity for future generations.

## Going forward

Fifteen years ago, the scale and scope of remittances were essentially unknown. Since then, the focus has been mostly on the sending side: aggregate volumes and high transaction costs. Much has been done to document these flows, but not nearly enough attention and resources have been directed towards realizing the full development impact of remittances.

*A lot has been done to document remittance flows, but the root causes of migration need further action.*

Going forward, the major focus should shift towards the “receiving end,” providing more options and better opportunities to remittance families for using their money productively.

This report seeks to provide a blueprint of ideas and actions on how to make remittance markets more competitive, how remittances can become a gateway to financial inclusion, and how they can contribute to achieving several core SDGs.

Now is the time to fully engage the ambition of 200 million migrants who send money home, and bring to scale their remittances and savings to help reach the SDGs by 2030: One family at a time.

## Chapter 1

# Contributing to the SDGs: One family at a time

Two years ago, the United Nations issued a call to action to eradicate poverty, end hunger, and reduce social and economic inequality in its many forms: *The 2030 Agenda for Sustainable Development*. This comprehensive undertaking affirms the need to reach 17 specific Sustainable Development Goals (SDGs) and pledges the support of all the 193 Member States.

For their part, 200 million remittance families are already engaged in this effort. They subscribe to many core SDGs through their daily lives and their aspirations for the future. Remittance families have their own individual goals: reduced poverty, better health and nutrition, education opportunities, improved housing and sanitation, and entrepreneurship, among others. They can also deal with uncertainty by increasing their savings and acquiring assets to ensure a more stable future.

The potential for synergy in connecting the scale of remittances to reach the SDGs is apparent: 1 billion “senders and receivers,” and a projected US\$6.5 trillion in remittances (at no growth) sent to low- and middle-income countries between 2015 and 2030.

These resources are, of course, private financial transactions between family members. To be clear: IT’S THEIR MONEY and families understand how to best reach their own goals. But the potential impact of remittances can only be fully realized in concert

with coherent public policies and priorities, coupled with civil society and private-sector initiatives.

In this context, the SDGs provide a unique opportunity to create a convergence between the goals of remittance families, the strategies of the private sector to tap underserved markets, and the traditional role of civil society to promote positive change.

For example, improved legal and regulatory frameworks can create enabling environments resulting in more competition and lower transaction costs. Promoting financial inclusion for remittance families can increase savings and investment; private-sector initiatives that target opportunities to make remittance families account holders, clients, and customers will benefit the families and the communities where they live.

Current estimates are that 75 per cent of remittance flows go to meet immediate needs, but the other 25 per cent – over US\$100 billion a year – is available for other purposes. Given better opportunities to save, remittance families will save more. Given appropriate investment options, customized to their circumstances and goals, remittance families will invest more. And given better mechanisms to invest in the human capital of their families through better education, health care and housing, remittance families will live better lives.



In sum, by providing remittance families with better opportunities and more options to use their money productively, the scope and ambition of the SDGs will meet the scale and resourcefulness of these families.

As the following chart indicates, remittances can contribute to reaching the SDGs in a variety of ways at household, community and national levels. The chart is intended to provide only an outline of the potential linkages between remittances and the SDGs. Over the coming months, as an outcome of the Global Forum on Remittances, Investment and Development 2017 (GFRD2017), a separate Guide to Remittances and the SDGs will be made available including the views of Member States, the private sector, and civil society and enriched by a broader range of examples of policies and programmes.

# Remittance families' contributions towards the Sustainable Development Goals

## At the household level: SDGs 1-5



### Goal 1

End poverty in all its forms everywhere

#### How remittance families contribute to the goal

Migrants move from rural to urban areas and across international borders to overcome poverty.

- Remittances typically more than double a family's disposable income and help deal with uncertainty, allowing families to build assets.
- Analyses of 78 developing countries show significant poverty reduction effects of remittances: a 1 per cent increase in per capita remittances leads to a 3.5 per cent decline in the share of poor people in the population.<sup>3</sup>



### Goal 2

End hunger, achieve food security and improved nutrition and promote sustainable agriculture

#### How remittance families contribute to the goal

The growing lack of economic opportunity in rural areas deters sustainable food production.

- Investment of migrants' income in agricultural activities are creating employment opportunities.
- With additional income, receiving households increase their demand for food and improve nutrition, particularly among children and the elderly.
- Demand for food increases domestic food production.



### Goal 3

Ensure healthy lives and promote well-being at all ages

#### How remittance families contribute to the goal

- Remittances are invested in health care, improving the health and well-being of families.
- This additional source of income improves healthy lifestyles through access to medicine, preventive care and health insurance products.
- Household surveys in several developing countries indicate that infants born into remittance families have a higher birthweight and are less likely to die during their first year.



### Goal 4

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

#### How remittance families contribute to the goal

- One of the main reasons migrants send money home is to ensure access to better education for their children.
- Remittance-receiving households have demonstrably better educational participation and outcomes.
- Remittance households are able to invest about one tenth of their income in educating their children.
- Children, especially girls, register higher school attendance, enrolment rates and additional years in school.
- Research indicates that remittances lead to an almost doubling of school enrolment
- Remittances substantially reduce the probability of child labor participation.



### Goal 5

Achieve gender equality and empower all women and girls

#### How remittance families contribute to the goal

- Women migrant workers now comprise half of all remittance senders: 100 million in total.
- Remittances have transformed the economic role of women both on the sending side and the receiving end through financial independence and better employment opportunities.
- While women remit approximately the same amount as men, research suggests that women tend to send a higher proportion of their income regularly and consistently, even though they generally earn less than men.

The United Nations Agenda to reach 17 Sustainable Development Goals (SDGs) by 2030 is a call to move beyond analysis and prescription to action.

## At the local level: SDGs 6 and 13



### Goal 6

Ensure availability and sustainable management of water and sanitation for all

#### How remittance families contribute to the goal

To create social capital and pool funds to address local needs, migrants and/or their families often organize themselves into neighbourhood organizations in their communities or through Hometown Associations (HTAs) abroad.

- HTAs identify priorities for development and participate in their achievement through technical advice and fund-raising. They typically focus on social services, infrastructure, and primary needs such as clean water, education and health.
- Projects are designed by taking into account sustainability concerns and community welfare (e.g. the provision of irrigation or solar energy).



### Goal 13

Take urgent action to combat climate change and its impacts

#### How remittance families contribute to the goal

Migration is increasingly becoming a consequence of climate change.

- Remittances and diaspora investment are mitigating negative impacts and helping to cope with income shortages due to weather-related shocks.
- Remittances enable the adoption of more sustainable crops and non-farm activities. Examples include: support to local enterprises to provide solutions for flood control, more efficient use of water, improved irrigation systems, storm/heat/wind-resilient building materials, and the accessibility of drought-resistant seeds, among others.

## At the national level: SDGs 8 and 10



### Goal 8

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

#### How remittance families contribute to the goal

- Money held by remittance-receiving families and migrants' savings in host countries improves financial resources available to the general economy. Capital can be maximized when coupled with financial and entrepreneurial services.
- Migrant workers possess tremendous assets: knowledge, skills and networks.
- In terms of development impact, migrants' investment in micro, small or medium enterprises can be a highly effective way of creating jobs and generating income in local communities.



### Goal 10

Reduce inequality within and among countries

#### 10.c

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

#### How remittance families contribute to the goal

- Reducing the cost of remittance transfers can substantially increase disposable income for remittance-receiving families.
- Civil society efforts are achieving progress in promoting better working conditions for migrant workers.

The international community – in line with SDG 17 – is committed to working together in order to leverage the development impact of remittances.



**Goal 17**  
Strengthen the means of implementation and revitalize the Global Partnership For Sustainable Development

The international community is now recognizing that remittances are a vital source of support for hundreds of millions of people across the globe. Through such initiatives as the Global Compact for Migration, the contributions of millions of migrant workers will be strengthened, to the benefit of their families and the communities where they live.

As part of this effort, every year the international community celebrates the International Day of Family Remittances (IDFR), officially proclaimed by IFAD's 176 Member States in 2015, and

currently submitted to the United Nations General Assembly for formal endorsement. The IDFR, which recognizes the fundamental contribution of migrant workers to their families and communities back home, calls on governments, the private sector, international organizations and civil society to take concrete action to ensure that every hard-earned dollar, euro, pound, ruble, yen, dinar or naira sent home by migrants "counts."

Over the past two years there have been three major international meetings that have focused on migration, remittances and their contributions to sustainable development.

- At the United Nations Summit on 19 September 2016, the world came together around one plan: the *New York Declaration on Refugees and Migrants*, calling for new global commitments to address migration. Included as a top priority was the need to promote faster, cheaper and safer transfers of remittances in both source and recipient countries, as well as facilitating interaction between diasporas and their countries of origin.

- The Addis Ababa Action Agenda (AAAA), adopted during the Financing for Development conference in 2015, recognized the contribution of migration to sustainable development, including a number of commitments to realize the potential that remittances hold for development and their crucial importance for achieving universal financial access.
- In 2015, European and African governments met in La Valletta (Malta) for an ad hoc summit on migration, encouraging quicker progress towards reducing the costs of remittances in the most expensive corridors to and within Africa by 2020, and promoting innovative financial instruments to help leverage remittances for development.
- Every year the G20 reiterates in its *Leaders' Communiqué* the critical importance of remittances and financial inclusion to ensure that economic growth serves the needs of everyone and benefits all countries and all people, including in particular, women, youth and disadvantaged groups. In this context, G20 members constantly monitor their National Remittance Plans to identify means to establish supportive environments for remittances and to maximize their impact on local economic development.
- Several inter-governmental regional processes and dialogues, such as the Budapest Process, the Khartoum Process, the Prague Process, the Rabat Process, the Africa-EU Migration, Mobility and Employment Partnerships, and the ACP-EU Dialogue on Migration and Development, among others, all recognize the importance of remittances for development.



## Chapter 2

# A decade of remittance flows

### Global trends

Until recently, remittances were literally accounted for in the errors and omissions columns of central banks and international financial institutions. While trade, investment and other forms of capital flows were all carefully recorded and reported, the mostly informal transfer of small amounts of money between migrant workers and their families back home went unnoticed – “hidden in plain sight.” But not anymore.

Over the past decade, the scale and scope of remittances, which directly touch the lives of 1 billion people on earth, has become apparent, and with the notable exception of most sub-Saharan countries, is now becoming well documented. What still remains to be done is to leverage the impact of this global phenomenon by providing remittance families with more options to use their hard-earned money productively. Today, remittances “count,” and so do the people who send and receive them.

### Trends in population, migration and remittances

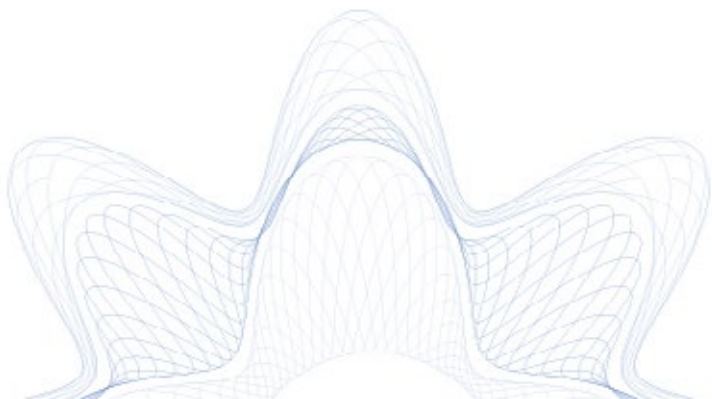
Globally, over the period 2007-2016, the rate of remittance growth was greater than the rate of migration growth, which in turn was greater than the rate of population growth. Over this period,

remittances increased by 51 per cent, while migration increased by 28 per cent and population in countries of origin increased by 13 per cent. Asia is the most dynamic region for both remittance flows and migration growth, while these trends were stable in Europe, reflecting a slight decline in population growth.

Table 1: 2016 Population, migrants, remittances and past decade growth rates

	Population of receiving countries (million)	Growth rate 2007-2016 (%)	Migrants from receiving countries (million)	Growth rate 2007-2016 (%)	Remittances (US\$ billion)	Growth rate 2007-2016 (%)
<b>Africa</b>	1,209	25	33	29	60.5	36
<b>Asia and the Pacific</b>	3,967	10	77	33	243.6	87
<b>Europe</b>	177	-2	26	19	43.5	5
<b>Latin America and the Caribbean</b>	612	11	33	21	73.1	18
<b>Near East and the Caucasus</b>	198	18	19	38	24.6	37
	<b>6,163</b>	<b>13</b>	<b>188</b>	<b>28</b>	<b>445.3</b>	<b>51</b>

World Bank 2017.



Asia is also the main remittance-receiving region, with the largest migrant population abroad. European receiving countries and Africa remain the most remittance-reliant economies, with remittances representing close to 3 per cent of their GDP.

During the past decade, **remittances grew at 4.2 per cent annually** on average, notwithstanding significant slowdowns after the 2008 financial crisis and in 2015-2016 due to reduced oil revenues and currency fluctuations.

Figure 2: Share of total migrants and remittances by region

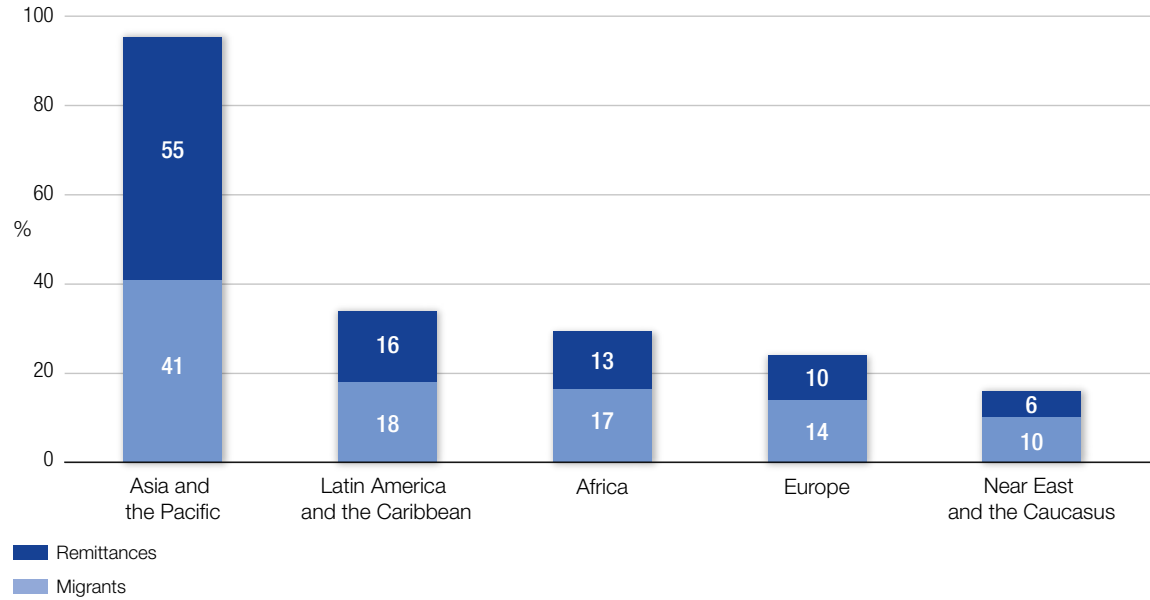


Figure 3: Share of remittances by region in 2016

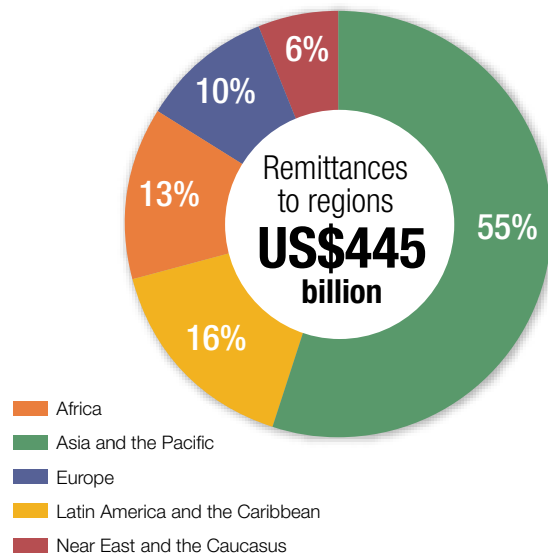


Figure 4: Remittance distribution: Urban versus Rural

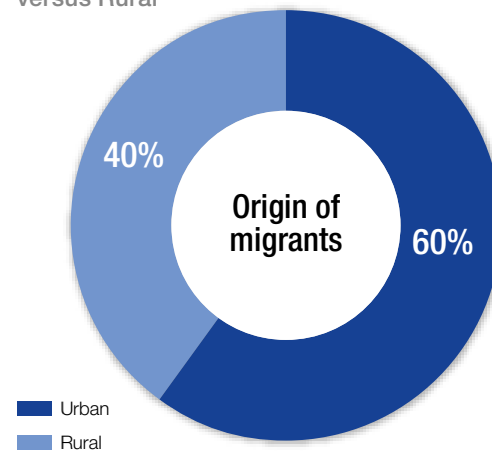
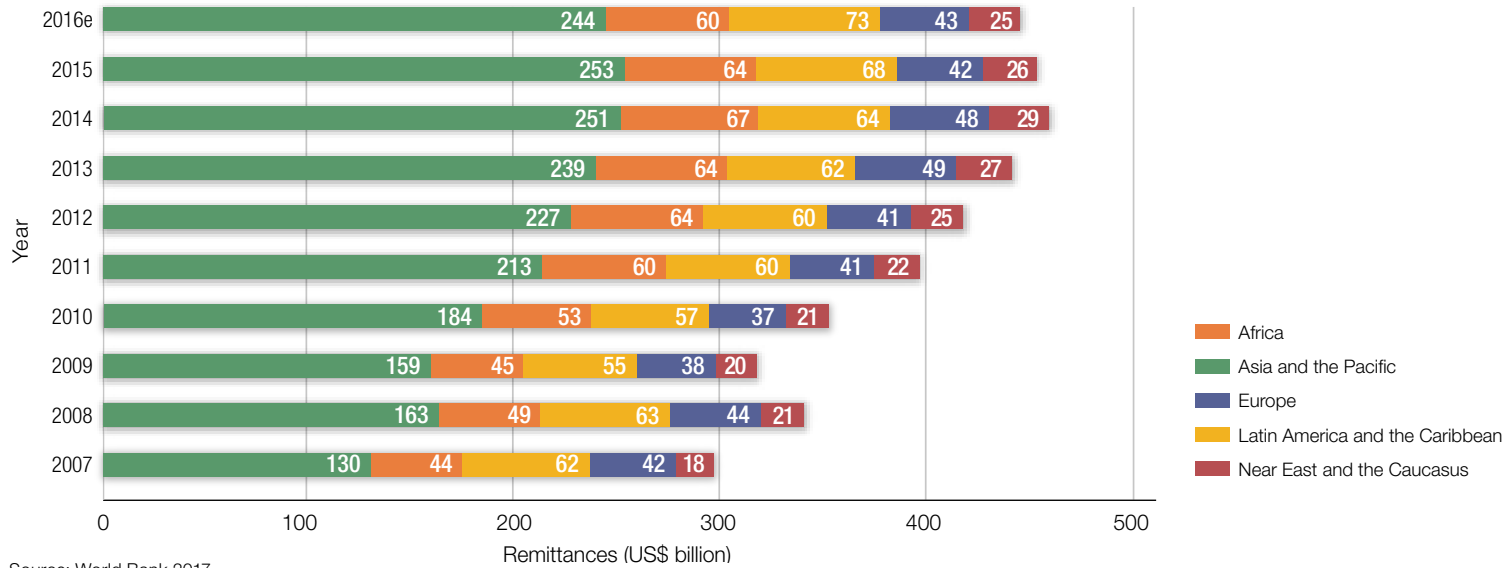


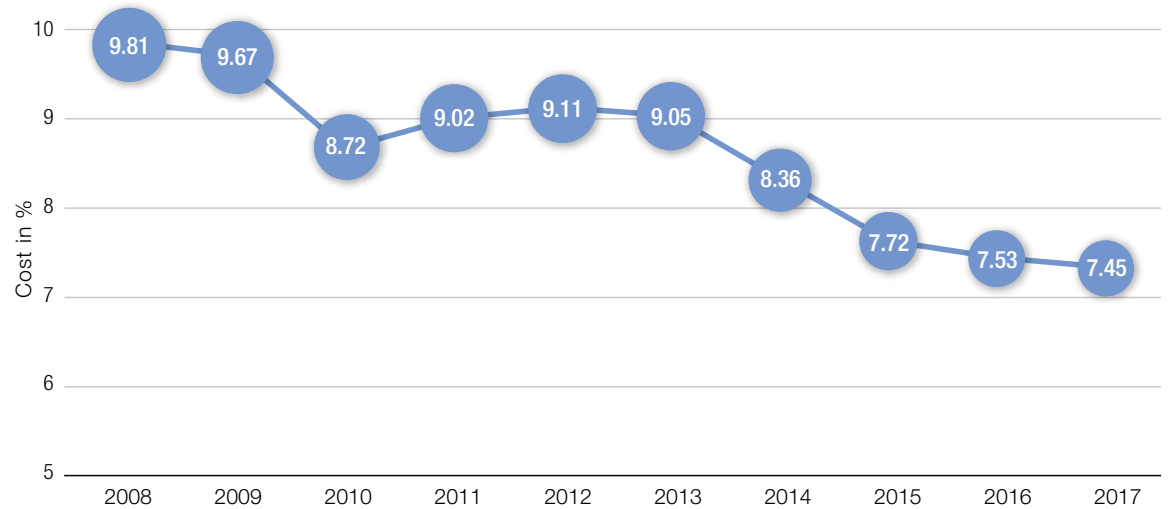
Figure 5: Growth of remittance flows by region: 2007-2016



Source: World Bank 2017.

**Costs of sending remittances** decreased by 31 per cent between 2008 and 2017 – from 9.81 to 7.45 per cent for sending US\$200 – still far from the SDG 10.c target of 3 per cent with no corridor more than 5 per cent. The next chapter explains specific trends related to transfer costs.

Figure 6: Costs of sending US\$200, 2008-2017



Source: The World Bank, Remittance Prices Worldwide, 2011 and 2017.

# Africa

Remittance flows, reliance and 10-year growth rate per country

	Remittances 2016 (US\$ million)	As percent- age of GDP (%)	Growth rate 2007-2016 (%)
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## Eastern Africa

Comoros	132	19.9	78.6
Djibouti	66	4.0	131.1
Ethiopia	642	1.0	79.4
Kenya	1,727	2.5	167.7
Madagascar	437	4.3	45.2
Malawi	33	0.5	56.9
Mauritius	246	2.2	14.4
Mozambique	198	1.3	99.7
Rwanda	163	2.0	34.4
Uganda	1,078	4.0	138.6
United Republic of Tanzania	387	0.9	-
Zambia	44	0.2	-25.3

## Central Africa

Cameroon	241	0.8	43.8
São Tomé and Príncipe	16	6.0	686.1

## Northern Africa

Algeria	2,046	1.2	-3.5
Egypt	16,584	5.5	116.6
Morocco	7,010	6.9	4.1
Sudan	160	0.2	-84.0
Tunisia	1,794	4.6	4.6

Reliable data are unavailable for the following countries: Angola, Burundi, Central African Republic, Chad, Congo, Democratic Republic of the Congo, Eritrea, Gabon, Libya, Mauritania, Somalia, South Sudan and Zimbabwe. They are therefore not included.

	Remittances 2016 (US\$ million)	As percent- age of GDP (%)	Growth rate 2007-2016 (%)
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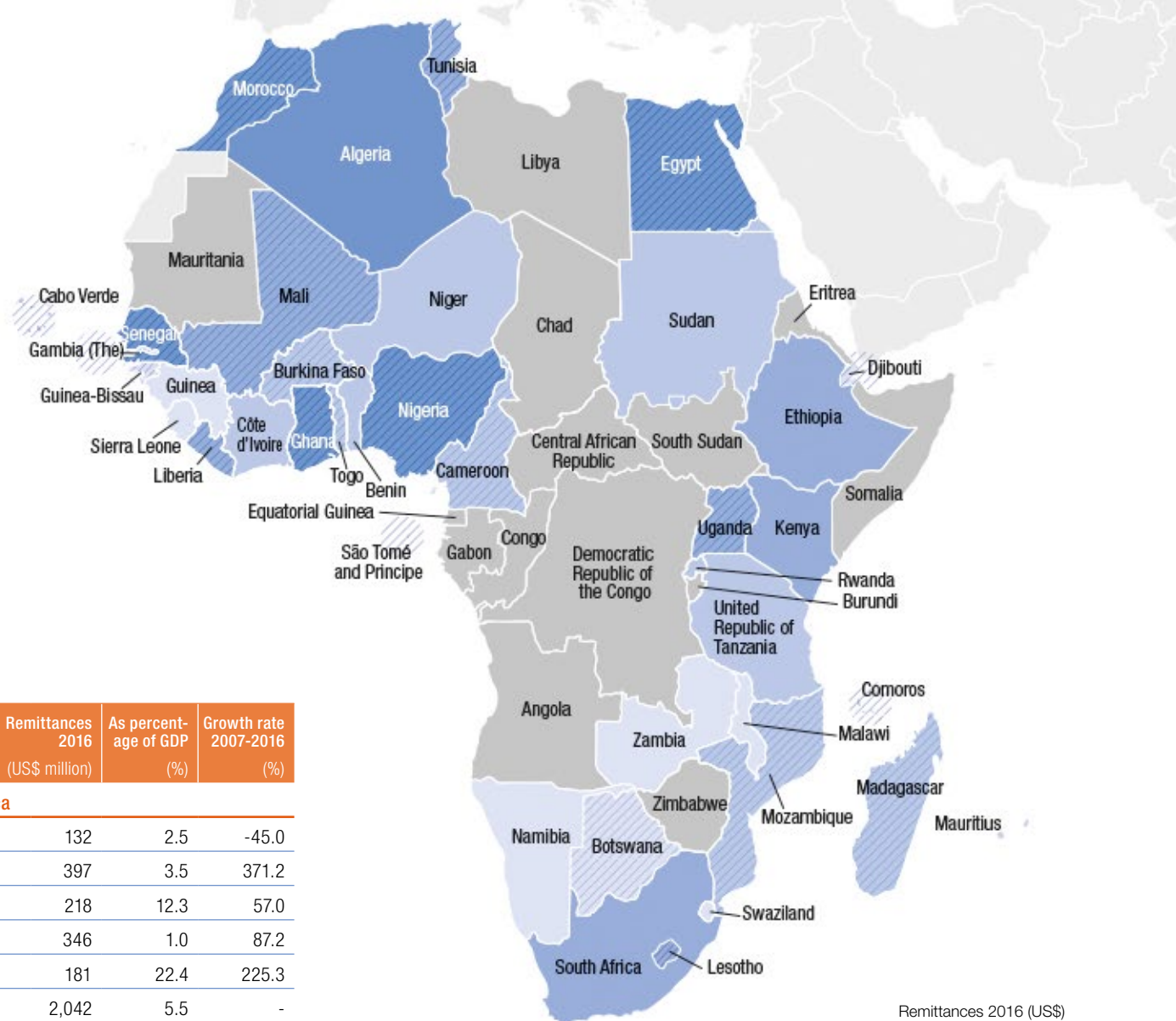
## Western Africa

Benin	132	2.5	-45.0
Burkina Faso	397	3.5	371.2
Cabo Verde	218	12.3	57.0
Côte d'Ivoire	346	1.0	87.2
Gambia (The)	181	22.4	225.3
Ghana	2,042	5.5	-
Guinea	96	1.4	539.3
Guinea-Bissau	39	5.7	-9.9
Liberia	642	31.2	935.9
Mali	803	6.3	133.4
Niger	111	1.5	40.1
Nigeria	18,956	4.4	5.2
Senegal	2,005	13.9	68.3
Sierra Leone	59	1.4	39.6
Togo	287	9.1	1.0

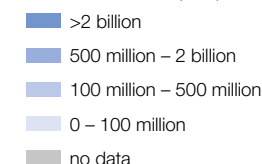
	Remittances 2016 (US\$ million)	As percent- age of GDP (%)	Growth rate 2007-2016 (%)
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## Southern Africa

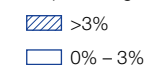
Botswana	29	0.2	-68.7
Lesotho	316	17.5	-50.5
Namibia	8	0.1	-48.7
South Africa	715	0.3	-9.7
Swaziland	17	0.5	-81.8



Remittances 2016 (US\$)



As percentage of GDP



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delineation of the frontiers or boundaries, or the authorities thereof.

## Migration

Africa has 33 million migrants, with about one half remaining on the continent. The pace of migration growth is similar to population growth, a trend that differs from other regions.

Preferred destinations outside of Africa are Europe (especially southern Europe); followed by Gulf states, particularly from East African countries and Egypt; and the United States from a wide array of countries.

Some African countries maintain particular ties to their former colonial power, with migration flows from Anglophone countries (Ghana, Nigeria) to the United Kingdom; from French-speaking countries (Algeria, Comoros, Côte d'Ivoire, Mali, Morocco, Tunisia, Senegal) to France; and from Portuguese-speaking countries (Angola, Cape Verde, Guinea-Bissau) to Portugal. France is the hosting country with the most African migrants (3.7 million).

Intra-regional migrations are drawn to regional economic hubs such as South Africa for Southern African countries (2 million); Côte d'Ivoire (2 million) and Nigeria (1 million) for Western African countries; and, to a lesser extent, Ethiopia and Kenya for Eastern African countries.

Conflict areas push migrants to more secure neighbouring countries, such as the case of South Sudanese to Uganda, and Somalis to Kenya (cf. section on refugees).

## Remittances

Over the past decade, remittances to and within Africa have grown by 36 per cent, close to the migration growth pace (29 per cent). Out of the US\$60.5 billion received in 2016, close to 80 per cent of remittances went to five countries: Nigeria (US\$19 billion), Egypt (US\$7 billion), Morocco (US\$7 billion), Algeria and Ghana (US\$2 billion each).

For 19 receiving countries, remittances are critical, as they rely on these flows for 3 per cent or more of their GDP. For six countries, remittances make up more than 10 per cent of their GDP: Liberia (31 per cent), The Gambia (22 per cent), Comoros (20 per cent), Lesotho (18 per cent) and Senegal (14 per cent).

## Costs

Although transaction costs have fallen, the African market remains the most expensive, with a 10 per cent average cost to remit US\$200. For sub-Saharan Africa costs remain above 10 per cent on average, with Southern Africa at 14.6 per cent – the highest in the world.

Triggered by scale and competition in large corridors, costs dropped below the global average in Northern Africa (from 7.6 per cent to 6.4 per cent) and just above the global average to Western Africa (from 8.9 to 7.9 per cent).

However, since the continent is mainly composed of low-volume corridors, substantial reductions in costs may be more difficult to achieve.

Africa		2007	2016
Top 5 recipients by volume received (US\$ billion)	Nigeria	18.0	19.0
	Egypt	7.7	16.6
	Morocco	6.7	7.0
	Algeria	2.1	2.0
	Tunisia	1.7	2.0

		2007	2015
Top 5 reliant countries % remittances/GDP	Lesotho	35	Liberia 31
	Comoros	16	Gambia (The) 22
	Togo	11	Comoros 20
	Nigeria	11	Lesotho 18
	Senegal	11	Senegal 14

		2011 – 1Q	2017 – 1Q	Trend
Average costs for sending US\$200 (%)	<b>Africa</b>	<b>11.6</b>	<b>9.0</b>	<b>-22</b> ↘
	Eastern Africa	15.7	10.8	-31 ↘
	Middle Africa	13.7	10.2	-26 ↘
	Northern Africa	7.6	6.4	-15 ↘
	Southern Africa	14.8	14.6	-2 ↔
Western Africa	8.9	7.9	-11 ↘	

Africa has 33 million migrants, with about one half remaining on the continent. The pace of migration growth is similar to population growth, a trend that differs from other regions.

# Asia and the Pacific

Remittance flows, reliance and 10-year growth rate per country

	Remittances 2016 (US\$ million)	As percentage of GDP (%)	Growth rate 2007-2016 (%)
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## Central Asia

Kazakhstan	308	0.1	115.5
Kyrgyz Republic	1,997	25.7	183.6
Tajikistan	1,778	28.8	5.2
Turkmenistan	9	-	-70.3
Uzbekistan	2,263	4.6	33.7

## Eastern Asia

China	61,000	0.6	58.9
Mongolia	263	2.2	47.7

## Southern Asia

Afghanistan	312	1.6	
Bangladesh	13,680	7.9	108.5
Bhutan	21	1.0	619.5
India	62,745	3.3	68.6
Iran (Islamic Republic of)	1,355	0.3	21.5
Maldives	4	0.1	-52.7
Nepal	6,276	32.2	262.0
Pakistan	19,847	7.2	230.9
Sri Lanka	7,252	8.5	189.2

Data are not available for the Democratic People's Republic of Korea.

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	Remittances 2016 (US\$ million)	As percentage of GDP (%)	Growth rate 2007-2016 (%)
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## South-Eastern Asia

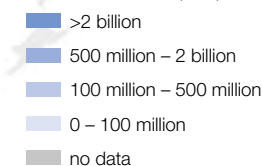
Cambodia	323	2.2	73.6
Indonesia	9,234	1.1	49.6
Lao People's Democratic Republic	95	0.8	-
Malaysia	1,586	0.6	1.9
Myanmar	3,312	5.0	-
Philippines	29,878	9.8	88.5
Thailand	6,025	1.5	268.5
Timor-Leste	65	4.4	524.9
Viet Nam	13,383	6.7	116.6

	Remittances 2016 (US\$ million)	As percentage of GDP (%)	Growth rate 2007-2016 (%)
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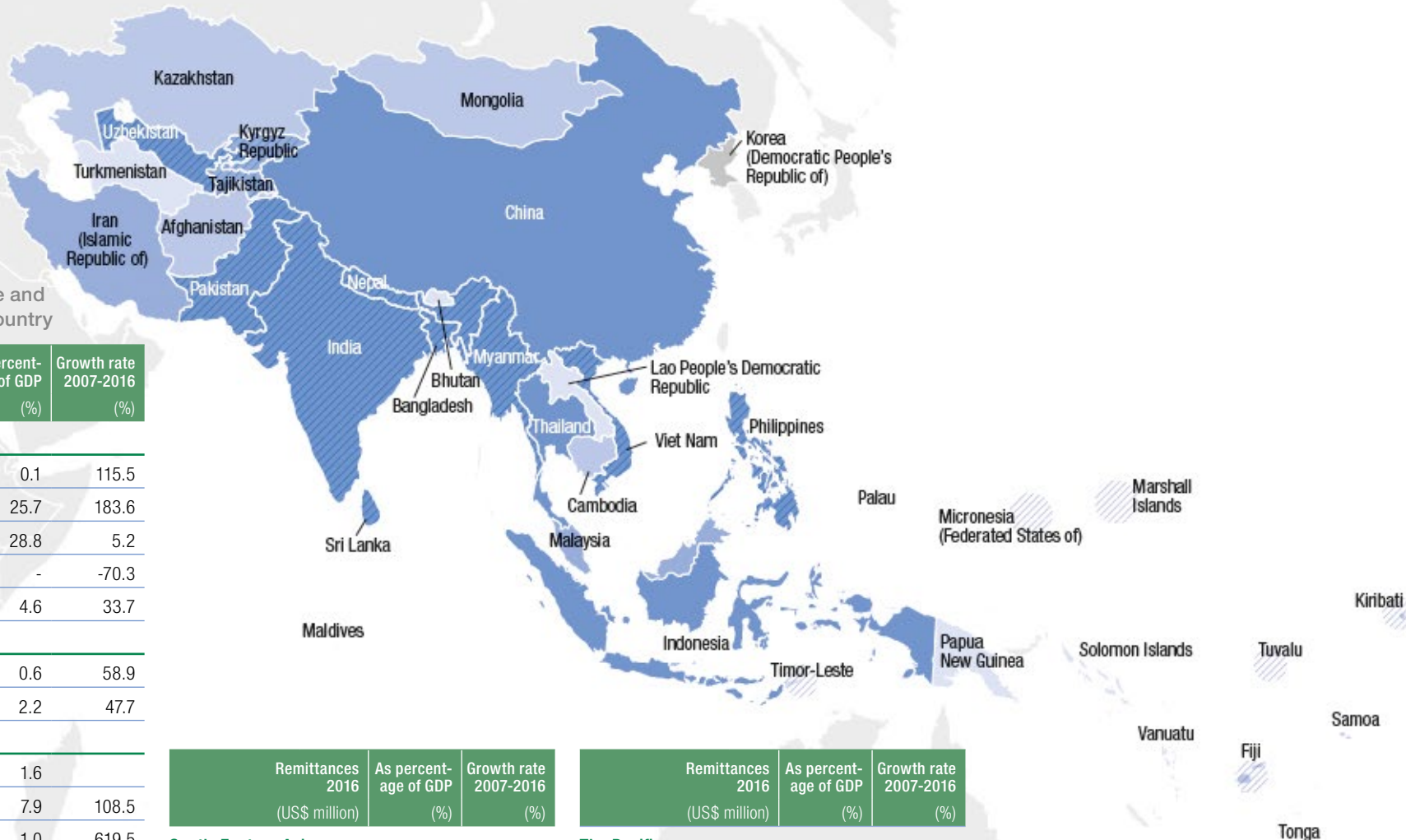
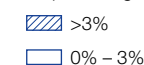
## The Pacific

Fiji	255	5.7	39.1
Kiribati	16	11.0	25.8
Marshall Islands	27	13.7	6.7
Micronesia (Federated States of)	24	7.4	-
Palau	2	0.8	51.5
Papua New Guinea	11	0.1	43.6
Samoa	132	17.2	36.5
Solomon Islands	20	1.6	61.3
Tonga	119	-	18.2
Tuvalu	4	10.6	-28.7
Vanuatu	24	2.9	339.9

Remittances 2016 (US\$)



As percentage of GDP



## Migration

Asia is the highest originating region with 77 million migrants; with 48 million remaining within the region.

Migrating to neighbouring countries is common, with bi-directional corridors such as India-Nepal, and one-way corridors such as Myanmar to Thailand.

Hong Kong, Japan, Malaysia, Singapore, South Korea and Thailand are the main regional hubs, hosting between 1 million to 3 million migrants each.

Preferred destinations outside Asia are the Gulf states, Europe and the United States, which host the most migrants, along with the Russian Federation, which is the regional hub for Central Asian countries:

- The Gulf states are a primary destination for migrant workers from Bangladesh, India, Indonesia, Pakistan and the Philippines. Two major migration countries, China and the Philippines, have the most scattered diaspora.
- The United States is a popular destination country for migrant workers from China, India, the Philippines and Viet Nam.
- Migrants from the Pacific region converge towards Australia and New Zealand, and to a lesser extent the United States.
- Thailand is the preferred destination for migrant workers from Cambodia, Lao People's Democratic Republic and Myanmar. India is the preferred destination country for Nepalese migrants, whereas Pakistan attracts Afghan migrants.

## Remittances

Over the past decade, remittances to Asia and the Pacific increased by 87 per cent, reaching US\$244 billion, while migration grew by only 33 per cent in comparison. Asia remains the main remittance-receiving region, with 55 per cent of the global flows and 41 per cent of total migrants.

Top receiving countries include India (US\$63 billion), China (US\$61 billion), the Philippines (US\$30 billion) and Pakistan (US\$20 billion).

Reliance on remittances, as measured by percentage of GDP, is highest in Nepal (32 per cent), Tajikistan (29 per cent) and the Kyrgyz Republic (26 per cent). Reliance is high even for more populated countries such as the Philippines (10 per cent), Sri Lanka (9 per cent) and Bangladesh (8 per cent).

## Costs

Average costs vary among sub-regions. Costs to send remittances to Central Asia in corridors originating from the former Soviet Union are still among the lowest in the world, at about 3.5 per cent. In comparison, Eastern Asia (10.3 per cent) and the Pacific (11.5 per cent) remain the destinations with the highest costs in Asia.

Costs in South-East Asia corridors are close to the global average (7.1 per cent); whereas Southern Asia is the sub-region where competition in high-volume markets leads to lower costs (5.4 per cent).

## Asia and the Pacific

		2007	2016	
Top 5 recipients by volume received (US\$ billion)	China	38.4	India	62.7
	India	37.2	China	61.0
	Philippines	15.9	Philippines	29.9
	Bangladesh	6.6	Pakistan	19.8
	Viet Nam	6.2	Bangladesh	13.7

		2007	2015	
Top 5 reliant countries % remittances/GDP	Tajikistan	45	Nepal	32
	Tuvalu	21	Tajikistan	29
	Kyrgyz Republic	19	Kyrgyz Republic	26
	Samoa	17	Samoa	17
	Nepal	17	Marshall Islands	14

		2011 – 1Q	2017 – 1Q	Trend
Average costs for sending US\$200 (%)	<b>Asia and the Pacific</b>	<b>8.6</b>	<b>6.9</b>	<b>-19</b> ↘
	Central Asia	2.5	3.5	41 ↗
	Eastern Asia	12.6	10.3	-18 ↘
	The Pacific	13.9	11.5	-17 ↘
	South-East Asia	6.9	7.1	3 ↗
	Southern Asia	6.5	5.4	-17 ↘

Asia is the highest originating region with 77 million migrants; with 48 million remaining within the region.

# Europe

## Remittance flows, reliance and 10-year growth rate per country

	Remittances 2016 (US\$ million)	As percentage of GDP (%)	Growth rate 2007-2016 (%)
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### Eastern Europe

Belarus	709	1.4	145.8
Bulgaria	1,671	3.1	-1.3
Czech Republic	3,196	1.5	68.5
Hungary	4,680	3.7	102.7
Poland	6,820	1.4	-34.8
Republic of Moldova	1,444	23.5	-3.2
Romania	3,514	1.7	116.3
Slovak Republic	2,197	2.5	32.2
Ukraine	6,161	6.5	-

### Northern Europe

Estonia	481	2.0	16.9
Latvia	1,275	5.0	-29.6
Lithuania	1,306	3.3	-8.8

	Remittances 2016 (US\$ million)	As percentage of GDP (%)	Growth rate 2007-2016 (%)
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### Southern Europe

Albania	1,065	9.1	-27.4
Bosnia and Herzegovina	1,870	11.3	-30.4
Croatia	2,253	4.3	21.5
Kosovo	972	15.2	5.9
The former Yugoslav Republic of Macedonia	289	3.0	-16.1
Montenegro	392	9.5	99.4
Serbia	3,199	9.2	-15.0



Remittances 2016 (US\$)

- >2 billion
- 500 million – 2 billion
- 100 million – 500 million

As percentage of GDP

- >3%
- 0% – 3%

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## Migration

Seventy per cent of European migrant workers stay within the European continent.

The preferred international destinations outside Europe for Central and Eastern European countries is the United States. Southern Europeans migrate primarily to neighbouring countries.

The most common destinations are Italy (Republic of Moldova and Romania), and Germany (Bosnia and Herzegovina, Poland and Serbia).

The Russian Federation is the primary destination for neighbouring Eastern European countries such as Belarus, Estonia, Latvia, Lithuania, Republic of Moldova and Ukraine.

Bi-directional migrations occur between the Russian Federation and Ukraine, with more than 3 million people on each side of their border. A similar trend can be observed between the Russian Federation and Kazakhstan, with more than 2 million migrant workers on each side of their border.

## Remittances

Remittance flows to Northern and Southern Europe have declined by more than 10 per cent over the past decade, but remain stable to Eastern European countries. This drop reflects economic downturns in both the European Union and the Russian Federation.

Europe receives US\$44 billion in remittances, representing 10 per cent of global flows (with 14 per cent of total international migrants). Eastern Europe is the main receiving sub-region, led by Poland (US\$6.8 billion), Ukraine (US\$6.2 billion) and Hungary (US\$4.7 billion).

Southern European countries rely most on remittances, led by the Republic of Moldova (24 per cent of GDP), with smaller inflows to countries such as Albania, Bosnia, Kosovo, Montenegro and Serbia, representing from 9 per cent to 15 per cent of GDP.

## Costs

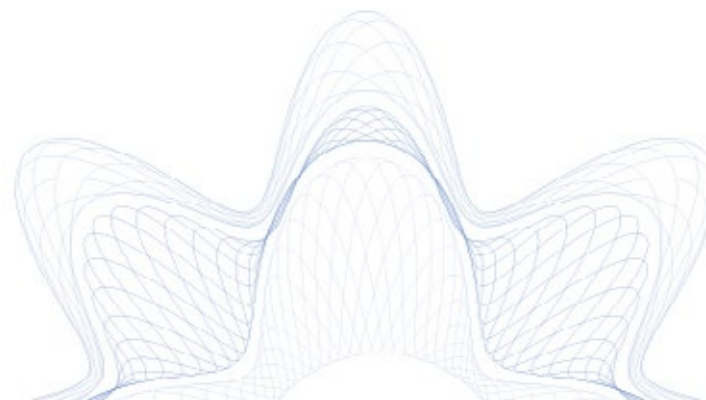
Costs to send money to Europe remain slightly below the global average at 7 per cent. Since 2011, costs have only decreased by 12 per cent. Costs remain the highest in small non-European Union countries of Southern Europe (8.4 per cent) and to some European Union receiving countries such as Bulgaria and Hungary (above 8 per cent). Costs remain below 6 per cent to other Eastern countries of Europe, especially those with significant flows from the Russian Federation, such as Belarus, Ukraine and the Republic of Moldova.

Europe		2007	2016
Top 5 recipients by volume received (US\$ billion)	Poland	10.5	6.8
	Ukraine	5.3	6.2
	Serbia	3.8	4.7
	Bosnia and Herzegovina	2.7	3.5
	Hungary	2.3	3.2

		2007	2015
Top 5 reliant countries % remittances/GDP	Republic of Moldova	34	24
	Kosovo	19	15
	Bosnia and Herzegovina	17	11
	Albania	14	10
	Latvia	6	9

		2011 – 1Q	2017 – 1Q	Trend
Average costs for sending US\$200 (%)	Europe	8.0	7.0	-12 ↘
	Eastern Europe	7.5	6.3	-15 ↘
	Northern Europe	6.8	6.5	-5 ↘
	Southern Europe	9.5	8.1	-14 ↘

Seventy per cent of European migrant workers stay within the European continent.



# Latin America and the Caribbean

Remittance flows, reliance and 10-year growth rate per country

	Remittances 2016 (US\$ million)	As percentage of GDP (%)	Growth rate 2007-2016 (%)
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## Caribbean

Dominica	24	4.4	6.3
Dominican Republic	5,534	7.7	62.9
Grenada	30	3.0	3.4
Haiti	2,268	24.7	85.6
Jamaica	2,439	16.9	14.9
St. Lucia	30	2.1	5.9
St. Vincent and the Grenadines	32	4.2	9.8

## Central America

Belize	87	4.8	19.3
Costa Rica	542	1.1	-12.3
El Salvador	4,581	16.6	23.5
Guatemala	7,427	10.3	75.3
Honduras	3,845	18.2	47.1
Mexico	28,542	2.3	6.2
Nicaragua	1,268	9.4	71.5
Panama	519	1.1	46.1

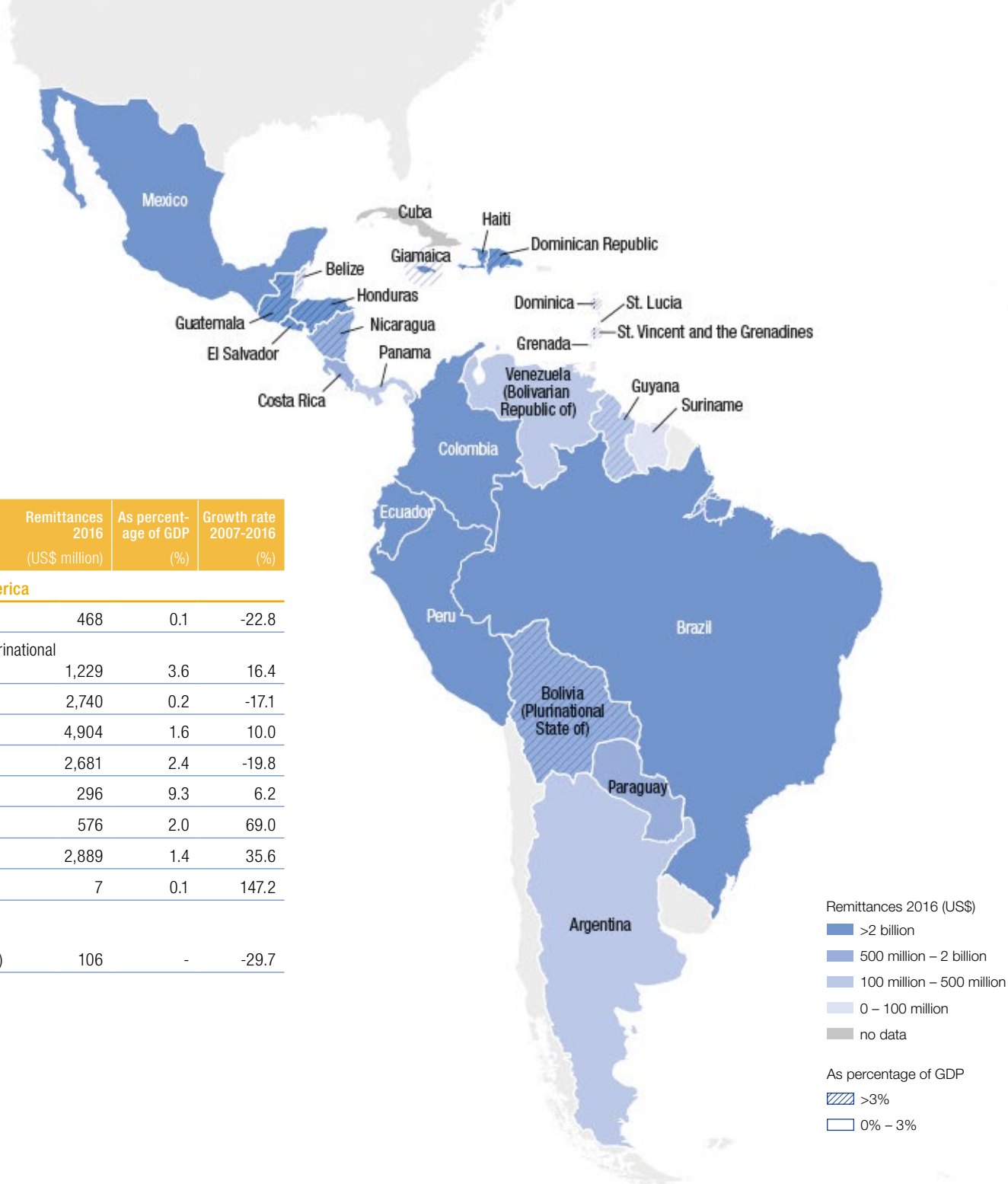
Reliable data are not available for Cuba and are therefore not included.

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	Remittances 2016 (US\$ million)	As percentage of GDP (%)	Growth rate 2007-2016 (%)
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## South America

Argentina	468	0.1	-22.8
Bolivia (Plurinational State of)	1,229	3.6	16.4
Brazil	2,740	0.2	-17.1
Colombia	4,904	1.6	10.0
Ecuador	2,681	2.4	-19.8
Guyana	296	9.3	6.2
Paraguay	576	2.0	69.0
Peru	2,889	1.4	35.6
Suriname	7	0.1	147.2
Venezuela (Bolivarian Republic of)	106	-	-29.7



## Migration

Thirty-three million migrants originate from Latin America and the Caribbean, representing 18 per cent of total international migrants. The region is marked by a low level of intra-regional migration (16.5 per cent) and strong concentration of flows to the United States. This is notable for Central America and Mexico, which have 93 per cent of their migrants based in the United States; and for the Caribbean, with two thirds of migrants settled in the United States.

Intra-regional flows are merely cross-border migrations with significant corridors such as the Dominican Republic and Haiti in the Caribbean.

In South America, emigration flows are more equally divided between intra-regional destinations with Argentina, and to a lesser extent the Bolivarian Republic of Venezuela, being the main regional hubs.

Argentina attracts migrants from the Plurinational State of Bolivia, Chile and Paraguay. The Bolivarian Republic of Venezuela is a preferred destination country for Colombian migrants, and Costa Rica for Nicaraguan migrants.

Main international destinations are the United States and Europe:

- In Europe, Spain is the main destination country, hosting communities from Cuba, the Dominican Republic and Ecuador – counting more than 100,000 migrant workers. The United Kingdom is a major destination country for Jamaicans, although far behind the United States.

- Haiti is characterized by a scattered diaspora spread among the United States, Canada, the Dominican Republic and France.

## Remittances

In 2016, remittances to Latin America and the Caribbean reached US\$73 billion, an 18 per cent increase compared with 10 years ago, showing dissimilar remittance trends by sub-regions. For instance, flows to South America and Mexico remained stable, while the population of migrants increased by 28 per cent and 13 per cent, respectively. In contrast, remittance flows to the Caribbean and to Central America increased more than migrations, with a 51 and 48 per cent increase, respectively.

Mexico alone receives US\$28.5 billion in remittances yearly, which represents close to 40 per cent of all transactions to Latin America.

For Latin America and the Caribbean, the share of international migrants remains at 5 per cent of the population; and the overall average reliance on remittances is 1.6 per cent of GDP. Nonetheless, 13 countries still receive more than US\$1 billion annually, the most reliant being Haiti (25 per cent), Honduras (18 per cent), Jamaica and El Salvador (17 per cent), and Guatemala (10 per cent).

## Costs

Average costs of sending remittances to Latin America and the Caribbean are 6 per cent, making it the least expensive region in the world to send remittances to.

Latin America and the Caribbean		2007	2016	
Top 5 recipients by volume received (US\$ billion)	Mexico	26.9	Mexico	28.5
	Colombia	4.5	Guatemala	7.4
	Guatemala	4.2	Dominican Republic	5.5
	El Salvador	3.7	Colombia	4.9
	Dominican Republic	3.4	El Salvador	4.6

		2007	2015	
Top 5 reliant countries % remittances/GDP	Honduras	21	Haiti	25
	Haiti	21	Honduras	18
	El Salvador	18	Jamaica	17
	Jamaica	17	El Salvador	17
	Guyana	16	Guatemala	10

		2011 – 1Q	2017 – 1Q	Trend
Average costs for sending US\$200 (%)	<b>Latin America and the Caribbean</b>	<b>6.8</b>	<b>6.0</b>	<b>-11</b> ↘
	Caribbean	7.3	7.8	6 →
	Central America	5.5	4.7	-14 ↘
	South America	7.1	6.0	-16 ↘

The Central America region, including Mexico, is lowest at 5 per cent, taking advantage of high volumes and high competition in the United States.

South American corridors show a decrease in costs from 7.1 per cent to 6 per cent. Costs in Caribbean corridors remain stable and above the global average at 7.8 per cent, even for high-volume corridors such as Haiti and Jamaica.

Thirty-three million migrants originate from Latin America and the Caribbean, representing 18 per cent of total international migrants.

# Near East and the Caucasus

Remittance flows, reliance and 10-year growth rate per country

	Remittances 2016 (US\$ million)	As percentage of GDP (%)	Growth rate 2007-2016 (%)
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## Near East – Turkey

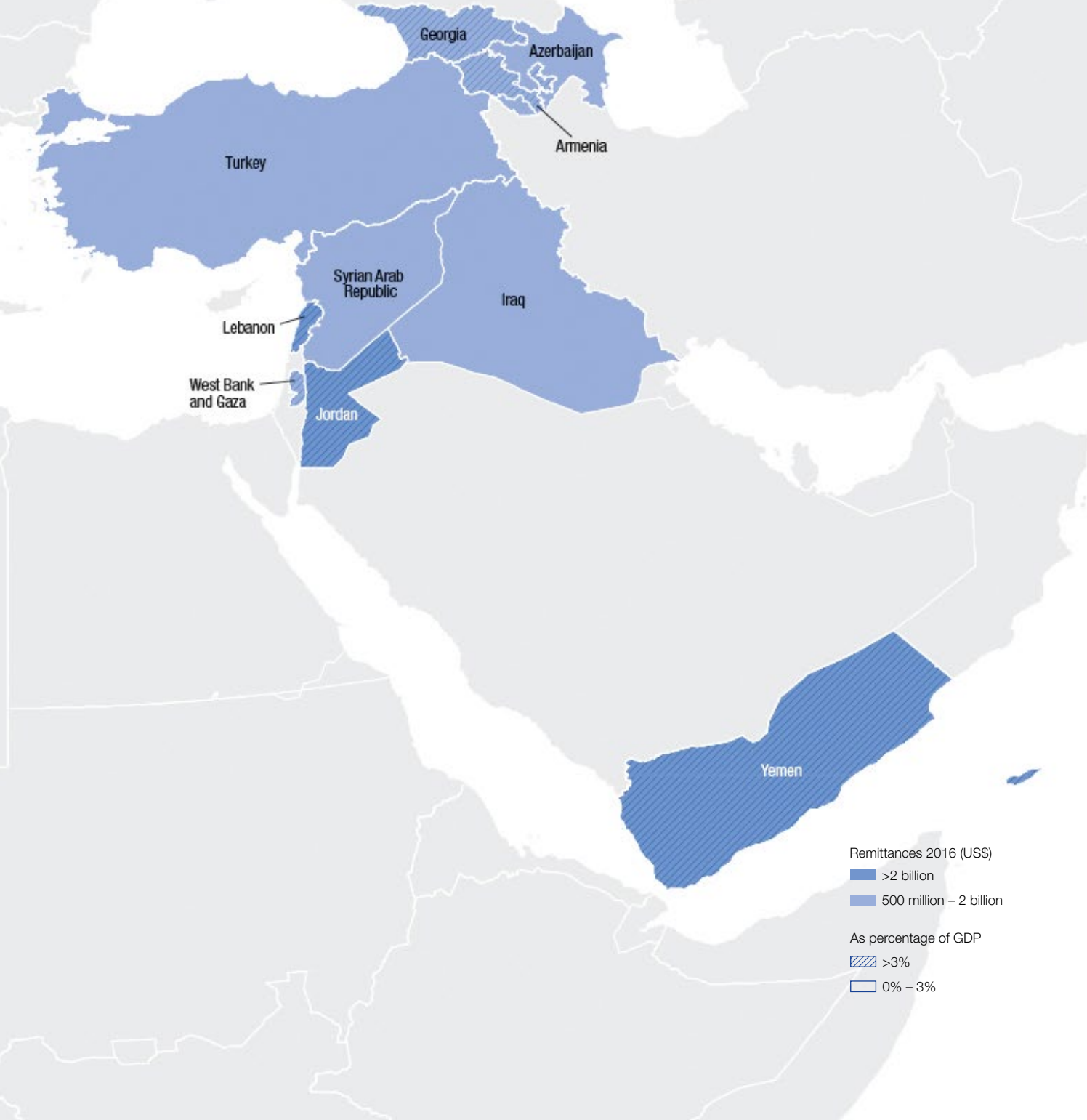
Turkey	1,169	0.2	-44.2
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## Near East/Caucasus

Armenia	1,339	14.1	-18.5
Azerbaijan	643	2.4	-49.3
Georgia	1,491	10.4	68.9

## Near East/Middle East

Iraq	837	0.6	-
Jordan	5,135	14.3	54.4
Lebanon	7,309	15.9	26.7
Syrian Arab Republic	1,623	-	57.5
West Bank and Gaza	1,723	13.2	187.8
Yemen	3,351	9.3	153.5



Remittances 2016 (US\$)

- >2 billion
- 500 million – 2 billion

As percentage of GDP

- >3%
- 0% – 3%

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## Migration

The region is characterized by long-term migration trends from Turkey and the Caucasus. Most recently, migration streams from the Middle East have been pushed by conflicts and climate change. The number of migrants increased by 38 per cent in 2016 compared with 2007.

The Russian Federation is the main destination country for Caucasus countries, with migrant communities totalling more than 500,000 individuals, while neighbouring countries are secondary destinations. Migration from Turkey tends towards Germany, other Western European countries and the United States.

Jordan, Lebanon and Turkey are the main host countries of migrants originating from the Middle East given their direct proximity to countries in conflict such as the State of Palestine and the Syrian Arab Republic. In 2007, Syrian migrants in Turkey and Lebanon totalled about 20,000; but 10 years later, this number reached more than 1.5 million as a result of the war.

Diasporas from Iraq and Lebanon are particularly scattered in different developed regions of the world. Saudi Arabia and the United Arab Emirates are the main regional economic hubs for the Middle East, attracting migrants from Jordan, Lebanon, the Syrian Arab Republic and Yemen.

## Remittances

Remittance trends have followed migration patterns in the Caucasus countries, with a stabilization of flows over the ten-year period, while inflows to Turkey were significantly reduced by 44 per cent. The 37 per cent average increase of flows to the Near East region results from a sharp increase of inflows to the Middle East in relation to large movements of people in this area.

Reliance on remittances, as measured by percentage of GDP, is highest in Lebanon (16 per cent), Armenia (14 per cent) and Jordan (14 per cent). Likewise, countries affected by conflict, including the State of Palestine, the Syrian Arab Republic and Yemen receive more than US\$1.5 billion annually.

## Costs

Caucasus countries connected to Russian corridors have the lowest costs in the world, taking advantage of the former Soviet Union's shared payment infrastructure: 2 per cent for sending the equivalent of US\$200.

Even after a reduction of 1.5 per cent and 1 per cent on average costs, remittance costs to Turkey and the Middle East still remain above the global average.

Near East and the Caucasus		2007	2016
Top 5 recipients by volume received (US\$ billion)	Lebanon	5.8	Lebanon 7.3
	Jordan	3.3	Jordan 5.1
	Turkey	2.1	Yemen 3.4
	Armenia	1.6	West Bank and Gaza 1.7
	Yemen	1.3	Syrian Arab Republic 1.6

		2007	2015
Top 5 reliant countries % remittances/GDP	Lebanon	23	Lebanon 16
	Jordan	19	Jordan 14
	Armenia	18	Armenia 14
	West Bank and Gaza	11	West Bank and Gaza 13
	Georgia	9	Georgia 10

		2011 – 1Q	2017 – 1Q	Trend
Average costs for sending US\$200 (%)	<b>Near East and the Caucasus</b>	<b>7.4</b>	<b>7.5</b>	<b>2</b> →
	Near East – Turkey	9.2	7.6	-18
	Near East/Caucasus	2.2	2.0	-9
	Near East/Middle East	9.3	8.3	-11

Caucasus countries connected to Russian corridors have the lowest costs in the world... 2 per cent for sending the equivalent of US\$200.

## Chapter 3

# Global remittance markets

### Ten-year trends

The first formal cross-border remittance market was established to handle transactions between the United States and Mexico three decades ago. It was a cash-to-cash business model composed of money transfer agents on both the sending side and the receiving ends, and eventually replaced the traditional processes of delivering cash by hand, through the mail or via bank transfers.

Today, there is no single integrated global remittance market; instead, there are multiple markets acting as networks connecting a varying quantity of country corridors, along which global, regional and national remittance service providers (RSPs) operate under different legal and regulatory frameworks.

An estimated 3,000 RSPs worldwide charge more than US\$30 billion to process approximately 2 billion transactions annually. They use a range of traditional and technological methods to initiate and deliver remittances from the “

Going forward, remittances are expected to remain a stable source of finance to meet the immediate needs and aspirations of millions of families around the world. If legal and regulatory frameworks facilitate the use of technology and innovation, mobile phones, digital money, Internet-based mobile and Web applications will continue to drive costs down, strengthen financial access, and improve the possibility to deliver additional services.

### Transfer costs

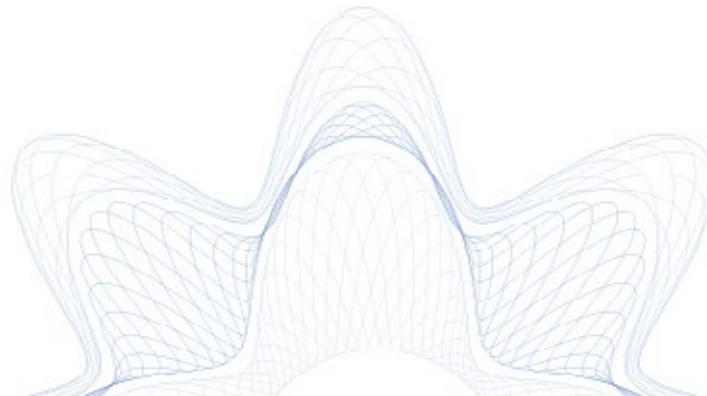
High transfer costs have understandably attracted the most concern and controversy among policymakers (particularly in sending countries), development organizations, the civil society and the private sector. This is the only specific indicator on remittances within the SDGs (10c). Twenty years ago, transaction costs averaged over 15 per cent, and sometimes exceeded 20 per cent (e.g. US\$40 to send US\$200).

By 2008, average costs fell below 10 per cent. Today, migrants pay on average US\$15 (7.45 per cent) to send US\$200.<sup>4</sup> Going forward, the stated 2030 goal of the United Nations and other international organizations is to reduce to US\$6 the cost of sending US\$200 (3 per cent). This would save migrants US\$20 billion per year in transfer costs.

Remittance transaction costs depend on many elements, including operating expenses, commission fees, differentials in exchange rates and market features. RSPs build into their pricing the costs of commissions to agents (around 50 per cent), financial crime risk, location-related costs, settlement charges and call centres, among others. If companies shift from cash-based models to electronic-based transactions there is the potential to substantially reduce pricing.<sup>5</sup>

Most available data from the World Bank's Remittance Worldwide database are from 2008. However, they have been updated to 2011. This average cost considers about 300 RSPs in the database, regardless of their market shares and the corridor they are serving.

DMA Research: Can FinTech transform the UK to Africa market?



Market forces also strongly influence costs. In general, banks have not demonstrated much interest in becoming directly involved in providing remittance services. Over the past decade, bank participation has been largely limited to two roles: as agents of partner MTOs, and as MTO account holders. As a result, banks usually charge the highest amounts to send US\$200. However, there are notable exceptions to this general rule in cases where banks actively seek to attract and keep migrants as high-value clients; or where there is a shared payment infrastructure.

In many countries, MTOs dominate the market and maintain prices above the global average until competitors with wide enough networks and more affordable pricing threaten their position. In addition, in countries where exclusivity clauses still prevail, dominant market positions get strengthened and further limit competition.

Regulatory changes, such as the Payment Services Directive (which came into effect in 2009 in European Union countries), have helped to enlarge payment networks and increase the number of players. This situation has led to price reductions in countries where competition was particularly low and often previously led by banking models.

## Competition

Remittance costs generally reflect the state of the competition in a given market.

RSPs compete based on how well they:

- Offer affordable pricing for money transfers
- Improve the granularity of their network in urban centres and expand their outreach to remote areas
- Establish solid payment networks in both sending and receiving countries
- Provide a wide range of financial services to their clients
- Comply with regulatory requirements

Although competition features vary widely among countries, regions and markets, some global trends have affected competition over the past 10 years:

- RSPs and their competitive advantages
- Market transformation
- Payout network extension
- Declining informal flows

## RSPs in the market: Competitive advantages

Over the past decade, the number of RSPs has grown dramatically to over 3,000 worldwide. Almost all this increase is due to small RSPs doing business in one or two countries, many of which are struggling to grow and/or maintain their position.

## Competition in the marketplace

*Competitive marketplaces* generally include large volumes of flows allowing competition between small and global MTOs, the generation of economies of scale, and the achievement of sustainable margins due to the number of transactions captured by each. Wide networks combined with open competition allow customers to choose among several brands at the point of access and to use competition to their advantage. Proportional and predictable regulations that allow for a variety of institutional RSPs, especially non-bank financial institutions, stimulate the entrance of new players and the establishment of new partnerships.

*Non-competitive marketplaces* are characterized by high prices, limited amount of competitors by corridors, small volumes, informality, prevalence of exclusivity clauses in partnership agreements and restrictive local regulations. Rural areas often present these features when they are poorly served by regulated financial service providers (FSPs) or agent networks.

The diversity of RSPs present in the remittance market provides an array of opportunities in many markets to better respond to remittance-user preferences such as affordable cost, access to services, convenience and the ability to connect with other financial services. Current RSPs in the remittance market include:

6/ Source: DMA market research based on analysis of publicly quoted MTOs and project Greenback 2.0 consumer research.

- **Traditional MTOs** are cash-based businesses where cash is collected at the point of sale and cash is paid out to the receiver in the recipient's country. The service relies on utilizing agents at both ends of the transaction, which makes it expensive and restricted to the availability of physical locations. This method accounts for over 90 per cent of all remittance transactions.<sup>6</sup>
- **Banks** are often the only institutions allowed to pay out international remittances. Their traditional role is generally limited to engage in the market as agents of MTOs or as MTO account holders. Occasionally, banks act as direct RSPs. For example, banks domiciled in receiving countries with significant numbers of emigrants have opened locations in sending countries and offer low- or zero-cost remittances as well as related products (e.g. ICICI in India, BPI in the Philippines, and Moroccan banks in Europe).
- **Postal networks** and their agencies offer electronic postal money orders and MTO services both in origin and host countries. Post offices are active as agents of MTOs, and over the past five years have become particularly involved in reaching the last mile for traditional and multi-channel MTOs in rural areas. Post offices and agencies have more than 500,000 active cash-out or cash-in points for MTOs, representing more than half of payout networks for leading MTOs. Remittance business models for postal operators have evolved in the past decade.

Table 2: Current RSPs in the remittance market

	MTOs	Banks	Postal networks	Informal	Hybrid/ Multi-channel	MNOs
Average cost	6.3%	11.2%	Aligned to MTOs	Usually below MTO	6.6%	2.9%
Geographic proximity	Average	Low	High	High	High	High
Access to formal financial services	Low	High	Average	N.A.	Average	Average

- **Informal methods** of sending money refer to the use of unlicensed systems for money transfers. Informal RSPs are commercially-oriented businesses operating retail cross-border transfers without either a remittance license or any legally accepted form of partnership. These types of businesses are generally operated by traders in the originating countries with correspondents abroad (the so-called *hawala* systems). The use of these unregulated systems continues to play an important role in some regions and corridors. This is the case of payments to Africa and within parts of Asia, especially to rural areas and among neighbouring countries. Informality is particularly prevalent where the local infrastructure is poor, service availability is limited, remittances are taxed, regulations limit competition, and where restrictions on foreign exchange encourage black market premiums.
- **Hybrid/Multi-channel** include traditional operators that have developed digital payment models that combine online ordering with different payout options, including crediting a bank account, cash collection or crediting a mobile wallet. In addition, technology-driven companies such as WorldRemit and Remitty use online/digital methods for senders and a range of options (cash/account/wallet) for paying out. Other types of online remittance platforms have emerged and provide additional payment services such as airtime top-up, bill payment and goods payment.
- **Mobile network operators (MNOs)** already involved in domestic mobile money business are also able to capitalize on their agent networks to use mobile phones as a payment instrument to develop cross-border remittances. Although still emerging, they are already reducing costs, improving convenience and easing access to additional financial services for low-income populations, particularly in rural areas.
- **Hubs** are a relatively new phenomenon linking individual MTOs to a central platform which enables multiple payout services to be available to the MTO. This service helps to add capillarity and increase the availability of remittance services to a broader network of operators. Examples of hub operators include MFS Africa, TransferTo and HomeSend.



## Market transformation

Over the past decade, MTOs have significantly consolidated their presence in most markets.<sup>7</sup> In 2016, MTOs represented more than two thirds of RSPs engaged in sending remittances.

The market is increasingly concentrated among a handful of global and regional MTOs. Global MTOs (covering more than 100 corridors worldwide) include MoneyGram, Ria and Western Union. These three companies have a combined global market share estimated at 25 per cent, and they frequently make up more than half of all flows to a given country. Regional MTOs are those with a strong regional presence. For example, Unistream is present in the Russian Federation and most of its remittance-receiving countries; while UAE Exchange's regional presence in the Gulf states is

so strong that it represents a global market share estimated at 6 per cent. The remainder of the market is made up of a myriad of small fragmented RSPs (MTOs, banks and others) that typically cover only one or two corridors.

Two decades ago, Western Union and MoneyGram were in a strong enough position to maintain their business strategies.<sup>8</sup> For example, Western Union held 80 per cent of the market share in Mexico in 1996, and the company sustained a comfortable position for nearly ten years. By 2007, its market share was estimated at 20 per cent.

After years of domination, the traditional cash-to-cash MTO model is now being challenged by new entrants such as hybrid multi-channel RSPs. As competition has increased prices have declined, networks have expanded, compliance techniques

have improved, and technology has helped to bring efficiency to back-office functions and customer access.

## Payout networks

As the number of point-of-sale locations has increased on the sending side, RSPs have also significantly expanded their outreach at the receiving end. The increase in payment networks connects countries, cities and locations within minutes, reducing travel time and cost to collect remittances. It also enables remitters to choose among competitors. These enhancements have also begun to make their way into rural areas. Among the top 23 remittance-receiving countries, the number of payment locations has increased from 350,000 to more than 1.5 million over the past decade.

RSPs have taken advantage of the diversification of payment network partners in receiving countries, which now range from traditional bank branches to electronic wallet providers, especially in countries where clear regulations on non-bank financial institutions and agent banking are set in place. For example, in Colombia and India the number of locations has increased over sixfold.

Table 3: Evolution of global market competition since 2005 (IFAD 2017)

	Cash-to-cash	Disruption	Hybrid/Multi-channel
<b>Market players</b>	<ul style="list-style-type: none"> <li>The cash-to-cash model dominates the market (e.g. Western Union and MoneyGram)</li> <li>Newcomers enter the market with similar cash-based models</li> </ul>	<ul style="list-style-type: none"> <li>Global MTOs consolidate their position through acquisition of competitors</li> <li>Digital MTOs enter the market</li> </ul>	<ul style="list-style-type: none"> <li>Leading MTOs adopt competitive pricing and multi-channel solutions</li> <li>Some digital MTOs acquired by larger payment operators</li> <li>Mobile money operators enter the market</li> </ul>
	1990s-2000s	Circa 2010	2017
<b>Strategic positioning</b>	<ul style="list-style-type: none"> <li>Cash-based agent model dominates</li> <li>Expansive growth for leading MTOs opening new corridors, leveraging exclusivity clauses</li> </ul>	<ul style="list-style-type: none"> <li>Traditional leading MTOs improve network outreach</li> <li>Digital MTOs connect to existing cash-based payment networks at receiving end</li> </ul>	<ul style="list-style-type: none"> <li>Traditional MTOs add digitization to sustain revenues</li> <li>Digital and traditional MTOs develop partnerships with MNOs' payout networks</li> </ul>

7/ Estimates of market share are made from the World Bank's Remittance Prices Worldwide 2017 database, based on a sample of outbound countries representing 70 per cent of remittance flows. Only those RSPs with an estimated share of 1 per cent or more are included in the database. Market share data are unknown for most RSPs.

8/ According to Coopers and Lybrand, 1997.

## The Pakistan Remittance Initiative (PRI)<sup>9</sup>

The PRI was launched in August 2009 as a joint initiative between the State Bank of Pakistan, the Ministry of Overseas Pakistanis and the Ministry of Finance with two specific objectives: facilitating and supporting the faster, cheaper, more convenient and efficient flow of remittances through formal channels, and creating investment opportunities in Pakistan for overseas Pakistanis.

The PRI adopted a multifaceted strategic approach which included:

- Enhanced outreach: focused 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).
- Enhanced distribution channels: expanded services offered by post offices and microfinance banks, and identification of high remittance-receiving areas (resulting in 10,000 additional physical locations in Pakistan for receiving remittances).
- Improved payment system infrastructure: instrumental for 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 of Pakistan announced the reimbursement of marketing expenses to banks for attracting remittances.
- Pre-departure briefings: remittance briefing sessions at Protectorate offices offered for capturing potential overseas Pakistanis and for opening bank accounts before leaving the country.

## Declining informal flows

Unlicensed transfer methods account for a substantial but declining proportion of remittance transactions. Research from countries receiving 80 per cent of all remittances indicates that, over the past decade, informal flows have declined to less than 20 per cent. For example, in the United States about 15 per cent of migrants used informal systems in 2005; by 2013 it was less than 5 per cent. In 2014, informal transfers from Russia fell to 25 per cent from a previously estimated 40 per cent.<sup>10</sup> Similarly, informal flows from both Italy and Spain declined to less than 15 per cent over the past decade.<sup>11</sup> In the Gulf states, systems such as *hundi* or *hawala* account for about 20 per cent of all flows.<sup>12</sup>

These changes are caused by a number of factors, including increased competition, improved methods for sending money, lower prices, favourable regulatory changes and improved rural payout networks. In some cases, concerted government action, such as the Pakistan Remittance Initiative, have had a dramatic impact helping to increase formal remittance flows from US\$5.1 billion in 2006 to US\$19.3 billion in 2015.

## Market environment

### Regulation

Regulation continues to have a major impact on competition and innovative business models:

- **Licensing requirements** determine the types of RSPs that are allowed to offer remittance services. In particular, banking regulations often restrain the ability of non-bank financial institutions (partnering with licensed banks) to handle international remittances. This limits competition, and deters new entrants into this sector.
- **Consumer protection** regulations are designed to provide sufficient information to make suitable product choices. The availability and effectiveness of these types of regulations vary from country to country.

9/ Sources: The World Bank, 2016. Rashid Amajd et al. 2013. How to Increase Informal Flows of Remittances: An Analysis of the Remittance Market in Pakistan. International Growth Centre.

10/ Jakhongir Kakhkharov and Alexandr Akimov, Estimating Remittances in the Former Soviet Union: Methodological Complexities and Potential Solutions. No. 2014-03.

11/ Sources: Le rimesse dei lavoratori stranieri in Italia: una stima dei flussi invisibili del "canale informale." Banca d'Italia, June 2016/ IFAD survey, 2015.

12/ Amna Ehtesham Khaishgi, Call to stop illegal remittances from UAE, The National, 29 December 2016.

- **Anti-money laundering and combating the financing of terrorism (AML/CFT)** regulations require operating companies to utilize appropriate systems and controls, focusing on the identification of senders and recipients and traceability of transactions. As these regulations have become more stringent and increasingly harmonized among countries, compliance costs have risen.
- **De-risking practices** by global financial institutions are effectively denying access to the financial system for many remittance companies, threatening their existence as well as the ability for migrant workers to send money home to their families, particularly those living in fragile situations. In fact, wholesale policies by banks to terminate relationships with many small MTOs are actually exacerbating AML/CFT concerns by driving remittance flows into informal channels that are much more difficult to track. Instead, banks need to evaluate MTOs on their ability to comply with regulatory requirements on a case-by-case basis. In turn, MTOs need to adopt consistent high-standard compliance procedures. Regulators also need to actively encourage appropriate compliance standards that are proportional to the actual risks involved with international remittance transactions. Otherwise, unnecessary “collateral damage” will continue to increase the cost of sending remittances home without any positive impact on AML/CFT activities.

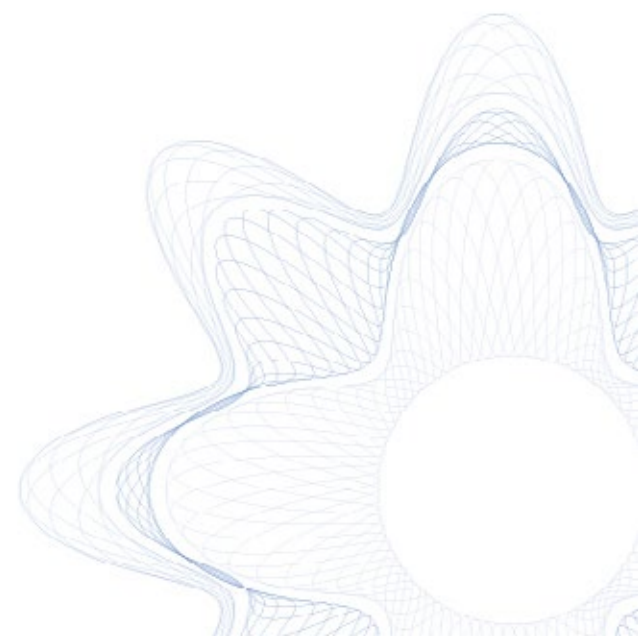
## New technologies and digitization of transactions

The use of technology has proven effective in increasing efficiency, reducing remittance costs and opening opportunities to improve financial access. However, despite its obvious benefits, consumers’ current use of technology for remittances has been slower than anticipated. Improved trust and comfort levels towards digital money will be required before technology can reach its full potential. Some of the areas that new technology can impact are:

- **Mobile payments to send and/or receive remittances:** financial inclusion in many of the sending markets is high, and despite having bank accounts many senders still use cash-based services to send money. This issue can be addressed by using online/app-based solutions to disintermediate agents and thus reduce costs.
- **Mobile payments on the receiving end:** in a number of receiving markets, particularly in Africa, mobile payments are becoming a significant part of the local payments structure.

- **Blockchain (and digital currencies):** significant attention is being paid to the potential for blockchain as a building block of digital currency. However, the benefits of using digital currency for MTOs to settle accounts, identify customers and exchange of data are still unproven.

The use of technology has proven effective in increasing efficiency, reducing remittance costs and opening opportunities to improve financial access.



## The promise of mobile remittances

### The growth of mobile money

Mobile money is a service to store and transact digital funds using even the most basic mobile phone, and it has been at the centre of increasing financial inclusion. In 2016, the global industry association of mobile operators (GSMA) reported that the number of registered mobile money accounts worldwide had surpassed 556 million.

In order to leverage the success of mobile money services for domestic transfers and payments, regulators in a number of markets have recently permitted such services to be extended internationally. Over the past few years, international transfers have been one of the fastest growing mobile money products, driven by the partnerships between mobile money providers to connect intra-regional corridors (especially within Africa): mobile money was sent internationally along 51 country corridors in 2016, which is up from 8 in 2013.

At the same time, partnerships are playing a critical role in connecting mobile money to global remittance flows. To facilitate North-South remittances, MTOs such as Western Union and Xoom are collaborating with mobile money providers.

Mobile money offers advantages for users including:

#### Lower costs

A recent GSMA study in 46 corridors indicated that sending remittances via mobile money was, on average, more than 50 per cent cheaper than sending through global MTOs, with an average cost of just 2.7 per cent. Even where recipients decided to withdraw their digital funds, and thus incurred a cash-out fee, mobile money remained on average at 4.6 per cent.

#### Convenience and proximity

Account holders can send or receive international transactions whenever it suits them. The density and reach of mobile money distribution networks also translates into proximity to agents. In 2016, mobile money providers were served by over 4.3 million agents. In particular, the presence of agents in rural areas and hard-to-reach places has been critical to the success of mobile money in many markets. For example, in Chad and Mali there has been strong customer acceptance in rural border towns, refugee settlements, rural marketplaces and remote mining towns.

#### Privacy, security and transparency

Mobile account holders can conduct transactions independently and safely from home and retain a clear record on their phone.

### Mobile money as a gateway to financial inclusion

Mobile money holds the potential to deepen financial inclusion by giving people a reason to keep their funds in digital form.

Mobile money accounts are being used to make domestic payments for such items as: milk from a local merchant (e.g. Lipa na M-Pesa in the United Republic of Tanzania), school fees (e.g. Orange Money in Côte d'Ivoire) or utilities (e.g. Tigo Pesa in El Salvador). Increasingly, mobile money users can also receive salaries (e.g. migrant workers in Qatar with Ooredoo Mobile Money), and access more sophisticated financial services such as insurance (e.g. Tigo Kiiray in Senegal), and/or savings and credit (e.g. M-Shwari in Kenya). Mobile money international remittances can thus serve as a gateway to more meaningful financial inclusion, by connecting account holders to the wider domestic payments ecosystem.

To maximize its socio-economic impact, mobile money needs to sustainably reach the lowest-income people. To address this challenge, mobile money providers are investing to reach more customers in rural areas, for example by developing value-added services that can help farmers and small producers to

increase productivity by advising them about weather conditions, pest outbreaks and new farming techniques. A growing number of mobile money providers are also making efforts to boost the adoption of mobile money among women: 14 mobile operators already have made public commitments to reduce the gender gap in their mobile money customer base as part of a GSMA initiative.

#### Regulation

Regulation remains a challenge to the expansion of mobile-based remittances in many markets. Even where mobile money providers can secure approval for facilitating international remittances, they often face uncertainty around the requirements and timeframe for a response from the regulator. This has prompted organisations such as the GSMA to call for standardized and transparent license criteria, as well as fixed maximum response times, to facilitate business planning and encourage investment (Farooq, S., 2017. Licensing mobile money remittance providers: Early lessons. GSMA).

## Chapter 4

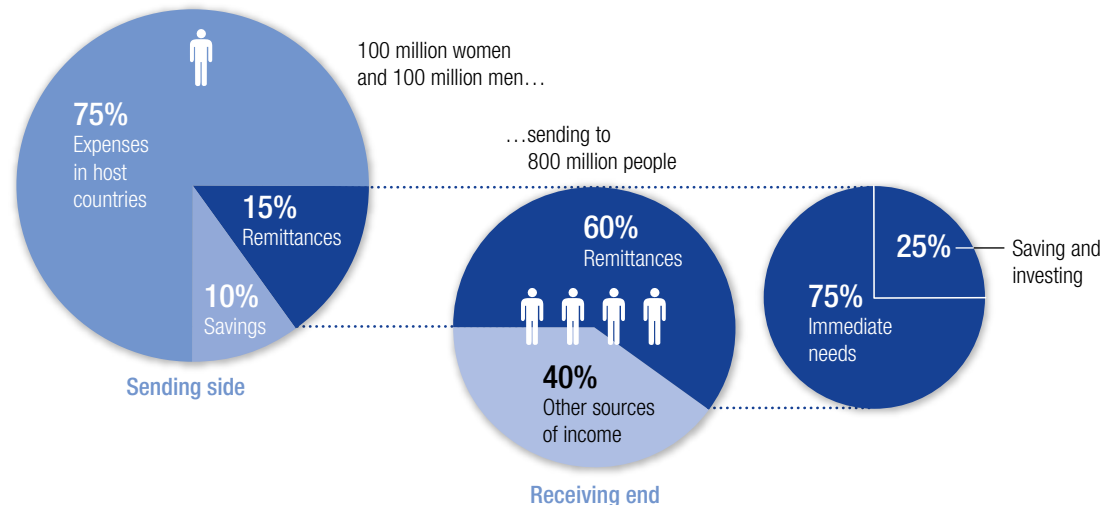
# Asset-building: Financial inclusion, mobilizing remittances and diaspora resources

It is commonly assumed that remittances are used only for consumption on the receiving end. But in reality, about 75 per cent of family remittances are used for immediate needs such as food, shelter and bill payment. The other 25 per cent – over US\$100 billion annually – is dedicated to building more secure and independent futures, through better education, improved health, savings and investing in assets and income-generating activities.

It is also believed that the majority of diasporas do not save or invest. However, there are millions of migrant workers who, despite their economic limitations, already save either formally or informally, invest and send home about 15 per cent of their income.

While remittance-receiving families and migrant workers are generally excluded from the formal financial system, they consistently demonstrate a commitment to save and/or invest whenever given the opportunity, using channels they understand and trust. Providing them with value-added options will improve long-term asset-building opportunities for themselves and their communities.

Figure 7: Migrant worker income distribution and remittances as disposable income for receiving families



## Financial inclusion at the sending side and the receiving end

Because asset-building is integral to human prosperity, migrants and remittance recipients can use their savings and remittances as a mechanism to integrate themselves into the financial system. A concerted effort by policymakers and the private sector to promote financial inclusion with policies and services specifically targeted and customized to the needs of remittance families would have a

multiplier effect on remittances and savings to the benefit of senders, receivers and their communities.

On the sending side, besides remittance services and savings products, migrants also require loans to complement investments back home, insurance to cope with uncertainty and the possibility to build a credit history in order to access long-term financial investment products. On the receiving end, cross-selling strategies would allow financial

institutions (e.g. banks, credit unions and MFIs) to fully intermediate remittances and transform these flows into long-term assets.

Both at the sending side and at the receiving end, financial education is key to sustaining the asset-building process. Financial education equips remittance families with basic knowledge to choose the best-suited financial service, which in turn helps them understand how to best manage their funds.

Financial education must remain a central pillar of every programme providing financial services to migrant workers and their families. It should use diverse communication channels throughout the migration cycle. Leveraging the linkages between remittances and financial inclusion represents an important opportunity to create a convergence between the financial goals of remittance families and the commercial strategies of financial service providers, increasing access to formal remittance channels.

## Receiving families: Profile and financial inclusion needs

In most cases, remittances are a substantial additional source of income for recipients, representing on average about 60 per cent of the receiving households' total annual income.

Table 4: Asset-building opportunities among receiving families

Basic			Advanced	
Immediate needs	Human capital investment	Informal saving	Basic financial services	Advanced financial services
<ul style="list-style-type: none"> <li>• Food</li> <li>• Clothing</li> <li>• Shelter</li> <li>• Cooking equipment/appliances</li> <li>• Electronic devices</li> </ul>	<ul style="list-style-type: none"> <li>• Nutrition</li> <li>• Education</li> <li>• Health care</li> </ul>	<ul style="list-style-type: none"> <li>• Cash "under the mattress"</li> <li>• Jewelry</li> <li>• Livestock</li> <li>• Housing</li> <li>• Land</li> </ul>	<ul style="list-style-type: none"> <li>• Savings accounts</li> <li>• Micro/small loans</li> <li>• Micro insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Home improvement loans</li> <li>• Mortgage loans</li> <li>• Agriculture/SME loans</li> <li>• Insurance (health, life, repatriation)</li> <li>• Retirement</li> </ul>

In terms of financial inclusion trends, surveys show that remittance-receiving households tend to have a higher propensity to save than non-receiving households – and higher amounts of savings in absolute value. Around 57 per cent of receivers save a portion of their remittances, but only 23 per cent do so in financial institutions.<sup>13</sup>

Across nationalities, more than 15 per cent of migrants contribute to financing income-generating activities, including micro- and small enterprises, in the households receiving the remittances.<sup>14</sup>

Financial institutions have a key role to play in leveraging remittances into assets. Financial services (e.g. savings, loans, insurance and investments) help families cope with or better mitigate risks and diversify their physical, financial and productive assets.

Financial education must remain a central pillar of every programme providing financial services to migrant workers and their families. It should use diverse communication channels throughout the migration cycle.

Furthermore, the impact of remittances varies according to the receiving household's income level. Once families are able to achieve basic financial security, then they are able to build assets through financial services.

13/ For non-receiving households, only 41 per cent of all adults save and only 9 per cent do so in financial institutions. Source: IFAD, the World Bank Group, The use of remittances and financial inclusion, September 2015.

14/ Source: M. Aysa-Lastra, L. Cachón, editors, Manuel Orozco, Economic Status and Remittance Behavior Among Latin American and Caribbean Migrants in the Post-Recession Period, in *Immigrant Vulnerability and Resilience*, Springer International Publishing, Switzerland, 2015.

Table 5: Profile of remittance-receiving families

	Poor households	Vulnerable households	Resilient households
	with incomes below the national poverty line	with incomes above the national poverty line but vulnerable to fall into poverty if affected by financial shocks <sup>15</sup>	with incomes above the national poverty line and with financial and productive assets that allow them to mitigate the effects of financial shocks
<b>Remittance impact</b>	<p><b>Remittances as a lifeline, reducing poverty</b></p> <p>Up to 80 per cent of the amount of international remittances – and more for domestic remittances – is allocated to purchasing basic goods like food and to covering health-care expenses.</p>	<p><b>Remittances as a safety net, reducing vulnerability</b></p> <p>Low-income households are characterized by irregular income flows. External shocks can impact a household's wealth and draw it below the poverty line. Remittance inflows increase income and help households cope with unforeseen expenses, thus reducing vulnerability.</p>	<p><b>Remittances as an investment resource</b></p> <p>Resilient households use a variable share of remittances to invest in human (education, health), social (marriage), capital and physical (livestock, housing, equipment) and financial assets. A tiny share is invested in small businesses or farming activities.</p>
<b>Financial inclusion levers</b>	<p>Access to low-cost formal, reliable and timely remittance services is essential to covering basic expenditures.</p>	<p>Remittance services help to cope with risks and channel a complementary source of income that can be transformed into savings when incomes overtake expenditures.</p>	<p>Remittance services associated with other financial products (loans, savings) and non-financial services help households to develop income-generating and farming activities.</p>

Source: IFAD, 2015.

## Migrants' profile and asset-building needs

While abroad, migrant workers acquire assets through their knowledge, skills and networks. While their primary need is to remit money to their relatives in a convenient, secure and affordable manner, they also seek access to financial services for longer-term financial needs that evolve over time. Their financial profiles are related to the country where they work, their skills, level of education, occupation, years working abroad, legal status and income. Characteristics of migrant workers' propensity to save and invest are as follows:

- Six in ten migrants save, while four in ten own bank accounts or have some financial access.
- Migrants with savings accounts in their home countries remit nearly 25 per cent more to their families.<sup>16</sup>
- One in ten migrants invests or sets up a business in the host country.
- About 5 per cent of migrant workers – those with entrepreneurial profiles – are able to invest their capital/savings in their countries of origin: mainly in real estate or business. The average amount invested ranges from US\$7,000 to US\$10,000.

### Insurance products for migrants to mitigate financial vulnerability

Insurance can help protect migrant workers and their families against insolvency, thus avoiding the need to take out high-interest loans to cover expenses or sell assets to make ends meet.

In Nepal, the Centre for Microfinance (CMF) has enabled the development of insurance products for migrants through 10 local MFIs. Two products were designed: the Cooperative Unemployment Return Facility and the Cooperative Unemployment Allowance. These products were introduced to over 270 young migrant Nepalese and later rolled out to 40 financial institutions in the country.

15/ Resulting from unforeseen events such as climate stress, crop pests, illness, loss of employment opportunities and price volatility.

16/ Transnational Engagement, Remittances and their Relationship to Development in Latin America and the Caribbean, 2005. Nava Ashraf, Diego Aycinena, Claudia Martínez, Dean Yang, Savings in Transnational Households: A Field Experiment among Migrants from El Salvador, NBER Working Paper No. 20024, 2014.

Table 6 illustrates the financial profiles of migrants working in several regions of the world.

Migrant workers in some regions, such as in the Gulf states, earn relatively little, yet still remit a large share of their income to their families.

More than half of migrant workers invest their limited disposable income into savings. For example, 57 per cent of migrant workers in the Russian Federation save, even though they largely lack access to financial institutions. In the United States and the European Union more than half save and also have bank accounts. Migrant workers in Hong Kong (the large majority being female domestic workers) also save.

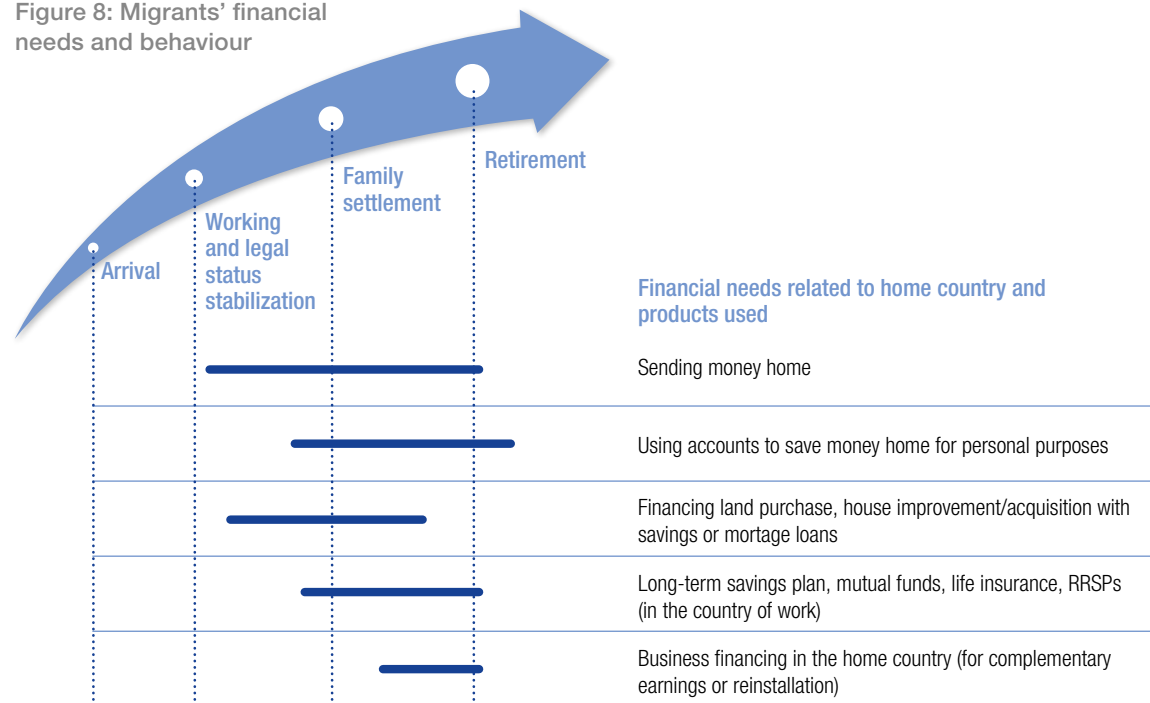
Some migrant workers do not invest their income into savings but into businesses and real estate, as well as other concrete forms of financial asset accumulation.<sup>17</sup>

**Table 6: Financial profile of migrant workers**

Financial profile	European Union	Gulf states	Hong Kong	Japan	Russian Federation	United States
Migrant population (million)	54,4	25,3	2,8	2,0	11,6	46,6
Annual income (US\$)	20,000	2,600	7,500	20,000	4,000	28,000
Annual remittance transfers (US\$)	3,000	2,000	2,500	6,000	1,500	3,600
Stock of savings (US\$)	3,000	150	750	1,500	500	5,000
Financial access (% of bank account ownership in home country/host country)	20/60	5/20	20/50	30/80	20/20	30/60
Propensity to save (%)	60	30	66	50	48	63

Source: IFAD. Research based on ADB, IAD and IOM sources.

**Figure 8: Migrants' financial needs and behaviour**



17/ Vivek Wadhwa, Why Migrant Entrepreneurs are Leaving the U.S., Bloomberg Businessweek, 27 April, 2011.



## Financial instruments to enhance migrant workers' asset-building efforts

Because many migrant workers are willing to return home, helping them build assets for their return is a central development policy objective. It is also an opportunity for the private sector to meet their financial product needs. Those who are financially vulnerable require protection, including advice, goal-setting, strategies to build savings and even help with opening a savings' account. Stable migrant workers, on the other hand, need products that help them better accumulate their assets in various types of savings and loan products. Among those

in high-income brackets (a minority of migrants), financial needs are related to wealth diversification and social investments in their countries of origin.

Table 7 presents a non-exhaustive list of services that migrant workers in these categories can benefit from. The list is matched to a typical financial profile. The combination of instruments provides the means to help migrant workers move up in the spectrum; for example, after investing in savings they can use those savings to improve their skills in preparation to join their country's labour market. In other cases, targeting savings for collateral to a mortgage can help them capitalize on their future retirement.

**Table 7: Types of financial services and investment products according to migrants' financial profiles**

	Vulnerable	Stable	High-income
Deposit accounts denominated in local and in foreign currency: savings accounts, certificates of deposit	▲	▲	▲
Mortgage loans: local or transnational loans that allow diasporas to purchase real estate and housing in their countries of origin		▲	▲
Retirement accounts		▲	▲
Diaspora mutual funds which mobilize pools of individual investors for collective investments in corporate and sovereign debt and equity			▲
Diaspora bonds allowing governments to borrow long-term funds from diasporas	▲	▲	▲
Inclusive (micro)insurance instruments	▲	▲	▲
Other investment instruments (stocks)			▲
Business and impact investment instruments (such as crowdfunding platforms which can benefit low-income migrant workers through small investments pooled together)	▲	▲	▲

### Migrants can become agents of change if linked to investment opportunities back home

Atikha, a Filipino NGO, has worked during the past seven years on mobilizing diaspora resources for local development. Atikha provided training to overseas Filipino workers (OFW) and their families, who expressed a desire to start their own businesses back in the Philippines. As a result of the training received, 2,000 OFWs and families pooled US\$6 million in savings to invest in small businesses and in their local rural cooperative, creating 1,000 jobs.

In addition to maximizing their own financial gains, these OFWs have become agents of change for themselves and their communities.

Whether through remittances, savings or investments, migrant workers possess a powerful set of instruments to improve their own lives and the lives of those back home. By leveraging the contribution that remittances and migrants' investments bring to development, governments have the opportunity to substantially increase their impact in the poorest (rural) areas, mitigating the negative effects of migration and enabling poor remittance-receiving households to advance on the road to financial independence.

Investment of diaspora capital in micro-, small- or medium-sized enterprises can have transformative effects on livelihoods and communities.

Diaspora investment programmes are a relatively new item in the international development agenda. Moreover, service providers on both sides of remittance corridors lack incentives as the market for investments faces financial regulations that are more complex than those of remittance

transfers. Diaspora investment models that allow small amounts to be invested in a secure way have proven to be successful at a small scale. More efforts are needed to collect data, establish benchmarks for specific migrant target groups, and estimate long-term impact.

### **Somali diasporas investing in rural SMEs in their homeland**

In 2014, the Business in Development (BiD) Network Foundation, a Dutch NGO, in partnership with fund manager Shuraako, an American NGO with field offices in Somalia, initiated the Somali AgriFood Fund ([www.somaliagrifood.org](http://www.somaliagrifood.org)), a seed capital matching investment fund focused on driving diaspora investments into Somali agriculture, fisheries, food processing and livestock sectors. Investment projects ranged from US\$20,000

to US\$250,000 through contributions from local business owners and the diaspora. In the third investment round, the AgriFood Fund's contribution was brought down to 20 per cent, and applicants were put in contact with partner Somali banks to complete their financing.

In two years, 14 businesses were created in all three regions of Somalia, through a leveraged fund of US\$2.3 million and a total diaspora investment (21 investors) of US\$1 million. Over 400 direct and indirect jobs were created.

Somalia: Investment projects ranged from US\$20,000 to US\$250,000 through contributions from local business owners and the diaspora.

IFAD Project

### **Malian diaspora financing rural young entrepreneurs through a crowdfunding platform**

Babyloan ([www.babyloan.org](http://www.babyloan.org)) is the biggest crowdfunding platform for solidarity lending in Europe. It is a social business licensed in France operating in 16 developing countries, and it has financed more than 30,000 micro-entrepreneurs, for a cumulated amount of US\$17 million.

Babyloan facilitates the financing of development projects in Mali that promote economic opportunities, entrepreneurship and employment for youth in rural areas by the Malian diaspora residing in France.

It is the diaspora who replaces the project's public resources to finance young rural entrepreneurs.

The system is based on solidarity loans provided by Malian migrants and on-lent by Babyloan to local MFIs to finance rural youth. As an incentive, Babyloan guarantees that their contribution will be invested efficiently to support young individuals and that they won't lose their capital. During the incubation phase, it is estimated that 2,000 migrants will finance 200 youth to be cofinanced by local MFIs. In the long run, Babyloan aims at reaching 8,000 lending migrants, financing on average 800 young microentrepreneurs yearly.

Mali: In the long run, Babyloan aims at reaching 8,000 lending migrants, financing on average 800 young microentrepreneurs yearly.

IFAD Project

## The way forward

Leveraging remittances to improve financial inclusion in receiving countries represents a key opportunity to add value to migrant workers' engagement with their own goals. Well-adapted measures, appropriate policies and regulations, and an active role of financial service providers could well accelerate the goals set forth in the 2030 Agenda for Sustainable Development.

Therefore, governments in both sending and origin countries should take into account the importance of leveraging migrant workers' remittances and their savings as an integral part of their development agenda and, more particularly, their financial

... an active role of financial service providers could well accelerate the goals set forth in the 2030 Agenda for Sustainable Development.

inclusion policies. In countries where this already happens, initiatives aimed at leveraging remittances and diaspora investment opportunities are still too often "policy orphans," scattered among different ministries and/or implemented as stand-alone projects without real coordination or integration with mainstream policies.

In order to highlight the potential opportunities arising from policies related to the integration of remittances and diaspora investment into mainstream financial inclusion policies, IFAD is developing an *Opportunity Index* to guide government policymakers in investing resources to leverage the development impact of remittances. In addition, this Index could provide the private

sector and civil society with data essential to making informed decisions regarding market opportunities in addressing the unmet financial needs of remittance families.

This Opportunity Index would provide national benchmarks and best practices, through an analytical framework organized along four categories as described below.

Domain	Issue at stake
1. Country reliance on remittances	Draw attention to the importance of remittances for the economy and the population Measure remittances as a percentage of annual GDP
2. Costs and competition	Draw attention to the alignment on SDG target 10c and assess market competition dynamics
3. Regulations and policies	Assess the extent to which risk-based regulations and competitive policies are in place to facilitate competition and innovation among RSPs
4. Financial inclusion	Assess the gaps between the supply of accessible and affordable remittance and financial services, and the demand from remittance recipients

## Chapter 5

# Refugees and financial inclusion

in collaboration with the United Nations High Commissioner for Refugees (UNHCR)



Refugees and asylum-seekers share many of the needs of the majority of migrants when it comes to access to and use of financial services. However, in addition to the many similar barriers, they are confronted with additional challenges, such as uncertain legal status and limited rights to work and to move, which further restrict their access to mainstream financial service providers.

### Current situation and ongoing trends

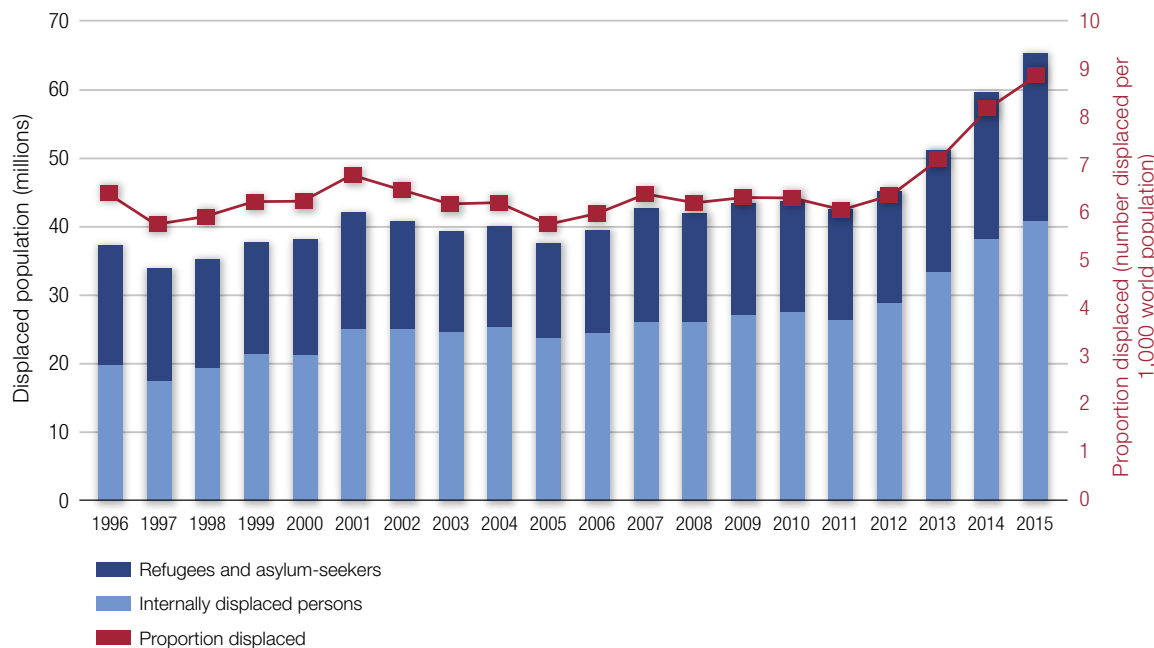
At the end of 2015, around 65.3 million people worldwide were forcibly displaced,<sup>18</sup> 21.3 million of whom were registered with United Nations agencies as refugees.<sup>19</sup> Refugees are people forced to flee their homes due to armed conflict, violence,

human rights abuses and persecution. They come from a small number of countries but end up widely dispersed.

In 2015, eighty-six per cent of all refugees of concern to UNHCR were in developing regions close to situations of conflict.

The global population of forcibly displaced people has substantially increased in the past five years. The ongoing crisis in the Syrian Arab Republic continues to account for a significant proportion of newly displaced refugees; and there are increasing numbers of refugees from several other countries, notably Burundi, the Central African Republic, the Democratic Republic of the Congo, Eritrea, Iraq, Nigeria, and South Sudan (UNHCR, *Mid-Year Trends*, 2016).

Figure 9: Trend of global displacement and proportion of displaced population (1996-2015)



18/ This number refers to the sum of internally displaced people (40.8 million), refugees (21.3 million) and asylum-seekers (3.2 million).

19/ The 1951 Refugee Convention defines a refugee as a person who, owing to a well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion, is outside the country of his nationality and is unable or, owing to such fear, is unwilling to avail himself of the protection of that country; or who, not having a nationality and being outside the country of his former habitual residence as a result of such events, is unable or, owing to such fear, is unwilling to return to it.

Figure 10: Refugee distribution worldwide, including person in a refugee-like situation (end of 2015)

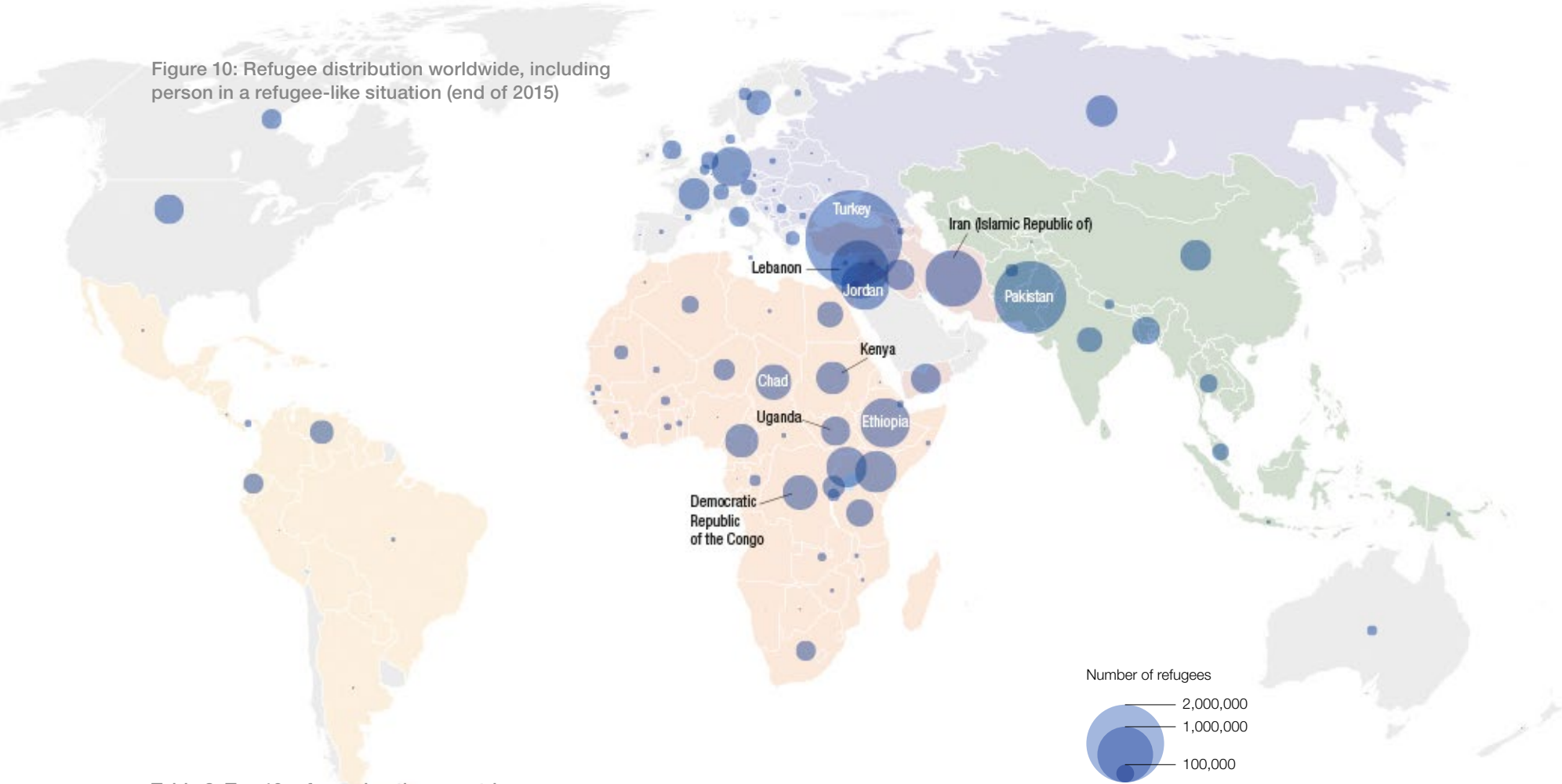


Table 8: Top 10 refugee-hosting countries

Number of refugees (millions)	start-2015	end-2015	Number of refugees (millions)	start-2015	end-2015
Turkey*	1.6	2.5	Jordan**	0.7	0.7
Pakistan	1.5	1.6	Kenya	0.6	0.6
Lebanon	1.2	1.1	Uganda	0.4	0.5
Iran (Islamic Republic of)	1.0	1.0	Democratic Republic of the Congo	0.1	0.4
Ethiopia	0.7	0.7	Chad	0.5	0.4

\* Refugee figure for Syrians in Turkey is a Government estimate.

\*\* Includes 33,300 Iraqi refugees registered with UNHCR in Jordan. The Government estimates the number of Iraqis at 400,000 individuals at the end of March 2015. This includes refugees and other categories of Iraqis.

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delineation of the frontiers or boundaries, or the authorities thereof.

Source: UNHCR, Global Trends 2015.

## Specific barriers to access limit financial integrity for refugees

Forced migration puts people under long-term uncertainty. One way a refugee can regain control of his life is through economic independence and access to financial resources. However, even in countries where refugees have the right to open a bank account, access to mainstream financial services is often hindered by strict AML/CTF rules, inadequate identification papers and documentation of residence, and limited rights to work and to move.

Refugees are widely unbanked, and therefore more likely to use informal moneylenders or other providers with higher interest rates, less transparency and more risk.

Another significant barrier to refugees' financial access – especially access to credit – is the lack of familiarity with this market segment by financial service providers (FSPs). They lack information on livelihood opportunities for refugees, the business case for serving them, and their credit risk.

## Evolving financial needs

Refugees' financial needs evolve depending on their displacement phase, human and social capital, and migratory plans or possibilities (see Figure 11).

Figure 11: Refugees' evolving financial needs

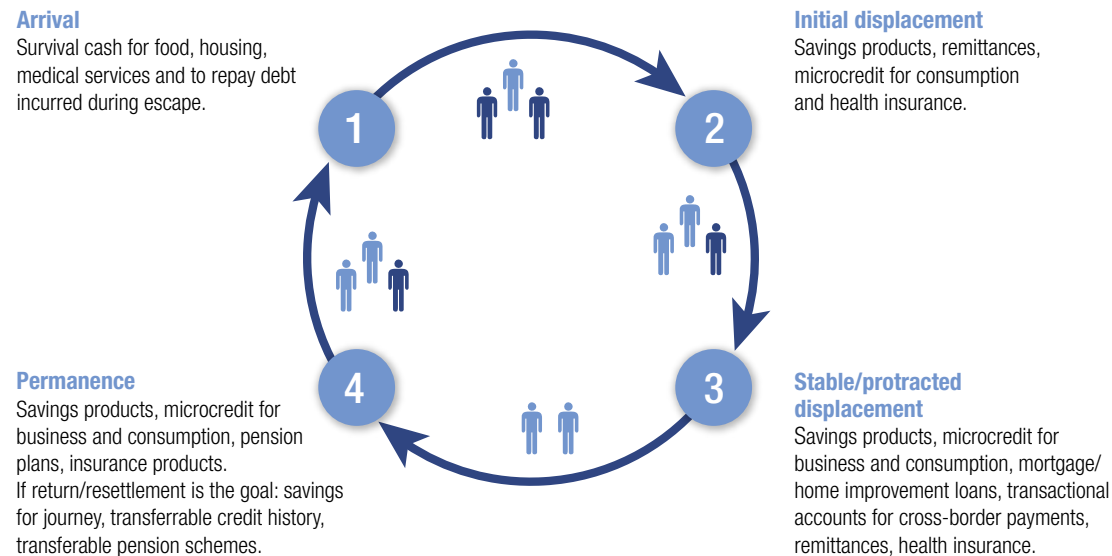
### Arrival

Survival cash for food, housing, medical services and to repay debt incurred during escape.

### Permanence

Savings products, microcredit for business and consumption, pension plans, insurance products. If return/resettlement is the goal: savings for journey, transferrable credit history, transferable pension schemes.

Their need and demand for financial services will also depend on vulnerabilities (e.g. trauma and/or poor health), the level of integration, human and social capital (e.g. education, marketable skills, and familiarity with the host culture), financial inclusion in their country of origin and – especially – their income-generating capacities and opportunities.<sup>20</sup>



“The financial inclusion of asylum seekers is an important component of wider integration efforts, as access to basic payment services is a prerequisite for participating fully in modern economic and social life. At the same time [...] lack of access to financial services can drive financial transactions underground and away from effective AML/CFT controls and oversight [...]. The success of EU Member States' integration and financial crime prevention efforts therefore depends, at least in part, on the extent to which credit institutions and financial institutions provide asylum seekers with access to financial products and services.”

Opinion of the European Banking Authority on the application of customer due diligence measures to customers who are asylum seekers from higher-risk third countries or territories. April 2016.

20/ Source: Serving Refugee Populations: The Next Financial Inclusion Frontier. Guidelines for Financial Service Providers. UNHCR, SPTF 2016.

## Recent good practices

- The European Union's Payment Accounts Directive came into force on 17 September 2014, requiring banks in member states to offer basic payment accounts to all legal resident customers, including asylum-seekers and refugees.
- In early 2017, the Bank of Zambia waived the regulation that impeded forcibly displaced people in possession of alien cards or refugee cards from opening bank accounts or mobile wallets.
- A couple of FSPs in the Middle East and North Africa regions have extended their microcredit lending operations to a number of refugees in the past year, to help refugees set up or expand business activities. Although outreach is still at its incipient phase, these refugee clients have been able to repay their loans, with no difference in terms of loan portfolio quality with respect to national clients of the same FSPs.

“In Lebanon, 60 per cent of Syrian refugee households in a number of governorates report borrowing from informal money lenders in order to cover daily needs such as food, rent and medical expenses.”

Source: Vulnerability Assessment of Syrian Refugees in Lebanon. UNHCR, UNICEF, WFP, 2016.

IFAD recently established a Facility for Refugees, Migrants, Forced Displacement and Rural Stability (FARMS), with the main goal of ensuring that poor rural people overcome poverty through remunerative, sustainable and resilient livelihoods.

Looking at the crisis holistically, FARMS' objectives cover both host areas and origin or sending areas. In host areas, the local communities will be supported in coping with the influx of displaced people by making their agriculture more productive and sustainable. The displaced, in turn, will be better able to contribute to their host communities, and better prepared to return home when the situation improves. In sending areas, economic opportunities will be created so that people who have left have something to return to, and those who remain have a chance to build their livelihoods.

In the first phase, the facility will focus on the NENA region (Djibouti, Egypt, Jordan, Lebanon, Morocco, Somalia, Sudan, Tunisia, Turkey and Yemen) where the current crisis is most acute, with the possibility of scaling up globally in the future.

FARMS will take a three-pronged approach encompassing cofinancing for IFAD projects, regional and country-specific grants, and policy engagement, communications and knowledge management.

### UNHCR's work on financial inclusion

UNHCR aims to promote awareness of refugees as a market segment and encourage linkages between refugee populations and the financial sector in the following areas in particular:

#### 1. Awareness-raising

UNHCR awareness-raising activities include: (i) provision of data on refugees' needs, socio-economic segmentation, locations and, whenever available, value-chain analysis and business opportunities; (ii) access to refugee settlements in non-urban settings; (iii) training for FSPs about refugees' needs and opportunities for livelihoods; (iv) linkage with agencies at the field level that provide refugees with non-financial services such as business skills and language training; and (v) development of case studies and webinars to share successful experiences.

#### 2. Creating incentives

UNHCR is partnering with SIDA to establish a partial-risk guarantee facility that will partially cover the portfolio of one microfinance fund for selected FSPs. The facility is meant to incentivize lending to

refugees and to build evidence that microfinance for them can be viable. In addition, UNHCR is partnering with UNCDF to create a technical assistance fund to support FSPs with market assessments, implement new technology solutions and extend financial products to refugees.

#### 3. Promoting digitalization

The evolving FinTech industry can play a role in expanding refugees' access to finance. For example, biometric identification allows FSPs the possibility to overcome ID constraints by linking digital scans to accounts, thereby making payments, remittances and additional financial services more accessible and affordable. UNHCR is using biometric identification for registering refugees and is now looking at ways to leverage digital identity also in the area of access to finance.

#### 4. Research

UNHCR is partnering with agencies such as UNCDF and FSD Africa to perform research on access to finance for forcibly displaced people linked to the development of specific financial products for this market segment.

# Recommendations on the contributions of migrant workers to the Sustainable Development Goals

Remittances represent a tangible demonstration of the commitment of migrant workers to the future of their families back home.

The aggregate numbers are massive: about 200 million migrants sending remittances to their families in developing countries totalling almost US\$450 billion each year with a cost of sending well over US\$30 billion annually.

However, the amount that matters the most is not measured in millions or billions. To a remittance-receiving family it is the US\$200 average monthly remittance received that counts. Usually around 60 per cent of total household income, remittances enable families to overcome poverty, meet immediate needs and contribute to a more secure future.

The challenge from now until 2030 is to help apply a “multiplier effect” to the US\$6.5 trillion in aggregate remittances projected to be received by families living in developing countries.

Because the international community is focused on achieving the Sustainable Development Goals (SDGs) by 2030, the set of recommendations described below link remittances to the SDG process in three major ways:

1. Recognize the positive socio-economic impact of remittances on families and communities (SDGs 1-6).
2. Support policies and specific actions to promote synergy between remittances and financial inclusion, encourage market competition and regulatory reform, and mitigate any negative impact resulting from climate change (SDGs 8, 10 and 13).
3. Ensure that the revitalized Global Partnership for Sustainable Development – as outlined in SDG 17 – and the Global Compact on Migration promote collaboration across all sectors involved in remittances.

*Recognize the tremendous contributions of migrant workers and their families to the social and economic well-being of countless communities (particularly in rural areas), and towards achieving the Sustainable Development Goals by 2030.*



In particular:



### Contributing to SDG 1

Promote affordable and safe access to remittances from the first to the last mile, and help provide remittance families with more options to build assets for a more secure future. This can be achieved through value-added financial and non-financial services leading to productive use and investment of remittance families' funds, particularly in rural areas, which receive 40 per cent of all flows.



### Contributing to SDG 2

Expand and leverage the ability of remittance families to invest and engage directly in agricultural production, leading to improved food security. This can be achieved by strengthening the capacity of rural financial and non-financial service providers, particularly by promoting services for agricultural production.



### Contributing to SDG 3

- *Develop* incentives for enhanced health insurance products and improved channels of distribution customized to the needs of remittance families, which would include the possibility for migrant workers to directly pay premiums for their families. This requires a minimum healthcare infrastructure in insurance culture where it does not exist.
- *Facilitate* the portability of pensions for migrant workers to their countries of origin.
- *Further mainstream* psychosocial support into financial education programmes for migrants and families during pre-departure and post-migration, to help alleviate the negative effects of family separation.



### Contributing to SDG 4

*Facilitate* the ability to save regularly on both the sending side and receiving end to pay for education fees back home, including direct bill payments from abroad.



### Contributing to SDG 5

- *Recognize* that 50 per cent of all migrant workers are women and empower them to overcome the traditional bias against financial independence and control.
- *Invest* in advisory services for women to meet entrepreneurial aspirations that can enable family reunification and improve the management of their income
- *Expand* gender-sensitive financial services and sensitize RSPs on gender and migration dynamics.



### Contributing to SDG 6

- *Support* social capital with migrant groups that facilitate pooling of funds to sustain investment in water and sanitation infrastructure in their places of origin.
- Promote partnerships with local authorities towards identifying water and sanitation priorities, and then join design and fund-raising efforts for project implementation.
- Create incentives to support remittance families to invest in sustainable irrigation infrastructure for agriculture.



### Contributing to SDG 13

- *Support* the development and provision of remittance-related, weather-based insurance products by local financial institutions to migrant families in rural areas.
- *Encourage* investment from migrant groups in local enterprises offering products and services designed to better manage exposure to climate-related risks, such as drought and water shortages, floods and storm surge, heat waves, cyclonic winds, shifting precipitation patterns, wildfires and invasive pests, among others.

*Strengthen* remittance families' resilience and financial independence through skills, financial access, and asset-building strategies within an enabling environment that promotes competition, innovation and cost reduction.



### Contributing to SDG 8

#### Asset-building and savings

- *Recognize* that the financial inclusion of tens of millions of remittance families represents a major opportunity to multiply the economic impact of these flows in individual households, their communities, and the financial system as a whole.
- *Create* incentives for the private sector to expand adapted services linked to remittances and offer savings products that will both increase their client base and serve a large underserved population.

#### Financial education

- *Promote* financial education as a central pillar of financial inclusion to stimulate the uptake of financial services by migrant workers, refugees and their families. This can be achieved by using diverse communication channels throughout the migration cycle.

#### Diaspora investment

- *Realize* that enabling investment of diasporas and recipients' savings can have transformative effects on their livelihoods and communities, with the highest impact in rural areas. Well-invested funds stimulate employment and income-generating opportunities.

- *Expand* and *adapt* current mechanisms to allow migrant workers to invest directly or through investment vehicles into SMEs in their home countries. This would require offering appropriate financial and entrepreneurship development services.



### Contributing to SDG 10

#### Enabling environment and regulations

- *Adapt* regulations that are commensurate to relatively low-value transactions to avoid excessive, counterproductive and costly processes to both remittance senders, recipients and financial institutions.
- *Recognize* that "de-risking" practices used by global financial institutions are effectively denying access to the financial system for many remittance companies, threatening their existence as well as the ability of migrant workers to send money home to their families, particularly those living in fragile situations.
- *Acknowledge* that although exclusivity agreements are declining, these practices still limit competition and cost reduction, particularly in many countries served by low-volume corridors and into rural areas.

- *Understand* that taxing family remittances is counterproductive, resulting in incentives for informal transfer systems.
- *Improve* transparency in the market by empowering end-users with accessible information on costs, claim process disclosures, new channels for sending money and additional services. Mechanisms such as social media and diaspora networks should be improved.
- *Develop* national “whole-of-government” remittance plans in recipient countries to fully assess the opportunities represented by remittances and migrant investments in their local economies. This can be done by adapting G20 countries’ plans to receiving countries.
- *Support* the expansion of the remittance and diaspora investment markets and related services through the provision of public and accurate data at macro, meso and micro levels.

#### Competition and cost

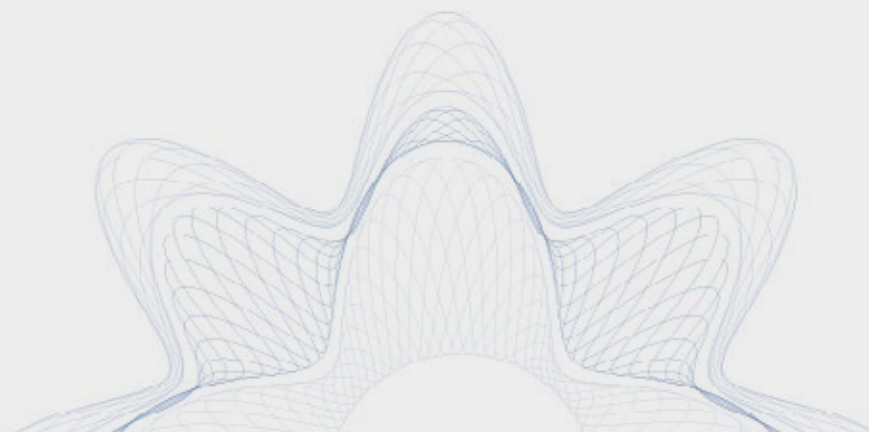
- *Encourage* RSPs on both sides of remittance corridors to incorporate competitive business models, and invest in more cost-effective and inclusive distribution channels and products, leading to lowering transaction costs to the SDG goal of 3 per cent.
- *Support* a proportional and predictable enabling environment for technological innovators such as FinTechs, mobile network operators and non-bank financial institutions to enter this market. Innovation is critical to reach the last mile and to link financial services to remittances.

*Recognize* that the potential development impact of migrant remittances and investments can only be fully realized in partnership with coherent and realistic public policies and priorities, coupled with private-sector initiatives.



#### Contributing to SDG 17

- *Promote* policy coherence among government institutions to create synergies across national priorities that integrate migrant workers and their contributions into national development plans.
- *Promote* public-private partnership approaches that stimulate client adoption of new technology-driven systems, changing the cash habits particularly in the underserved, rural and remote areas.
- *Support* the adoption of the International Day of Family Remittances (IDFR) in recognition of the fundamental contribution of migrant workers to their families and communities back home, and to the sustainable development of their countries of origin.



# Methodological note

The report *Sending Money Home: Towards the SDGs, one family at a time* analyses remittance flows and migration stock from 144 countries, and also provides a regional analysis of costs based on available data for these countries. The report covers the period from 2007 to 2016, based on data from two main sources: the World Bank and the United Nations Department of Economic and Social Affairs (UN DESA).

This note explains the methodology used to select the 144 countries, the main sources of data, and the calculation used to adjust existing data to the purpose and the period covered by the report.

## Criteria or qualifying sending and receiving countries

1. In order to analyse remittances as defined in the context of the report, the scope of *remittance-receiving countries* reflects countries to which migrant workers send money to. Such countries typically fall under the category of developing countries according to the World Bank's classification, which includes the categories of upper-middle-income economies and below.

2. Developed countries (or high-income economies)<sup>21</sup> also send and receive personal transfers. However, a certain amount of these personal transfers do not have the characteristics of remittances as defined above. This is particularly the case in Europe, where some high-income economies still rely on remittances while others do not. Subsequently, for European countries, the threshold of US\$18,000 gross domestic product (GDP) per capita per year and the status of *net sending* or *net receiving* country were both considered to sort out certain European countries from the group of *receiving* countries. These criteria divide developed European countries into two distinct groups:

- Developed *sending* countries (not included in the *receiving* countries): Countries with a GDP per capita above US\$18,000, and net remittance-sending countries with a GDP per capita below US\$18,000, such as the Russian Federation. This category excludes countries where personal payments are sent from individuals living in high-income countries to relatives in other high-income countries (e.g. Germany to France), and mainly remittance-sending countries (e.g. the Russian Federation).<sup>22</sup>

- Developed *receiving* countries: Net remittance-receiving countries with a GDP per capita below US\$18,000. This category includes European high-income economies in which a certain amount of the population still relies on remittances. The *receiving* countries included in the report are: Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania and Poland.

3. The regions and subregions per continent specified in the report use the classification indicated in the United Nations Statistics Division Database.<sup>23</sup> Eventual discrepancies with usual regional remittance data provided by the World Bank originate from differences in geographical classification, the definition of receiving countries (as opposed to developing countries) and the classification of the Russian Federation among sending countries.

21/ According to the World Bank classification.

22/ The Russian Federation is classified as an upper middle-income economy by the World Bank's 2017 fiscal year classification, with a GNI per capita of \$11,720 in 2015 (below the threshold defining high income economies of \$12,476). As such it should not be included among developed countries but its status of major net sending country justifies its classification among sending countries. In 2015, inflows to the Russian Federation were US\$6,870 million and outflows were US\$19,700 million.

23/ <https://unstats.un.org/unsd/methodology/m49/overview/>.

4. Based on these definitions, receiving countries covered in the report include 144 countries, excluding high-income economies except 9 European net-receiving countries.

#### Migration data

5. The data on migration used for the purposes of the report are taken from UN DESA, Population Division (2015): *Trends in International Migrant Stock: Migrants by Destination and Origin*. Data have been extracted for the 144 receiving countries from the 232 countries included in the UN DESA database.

6. Sub-regional totals have been calculated from the available years of reference, i.e. 2005 and 2015, and a growth rate has been applied to estimate migrant stocks for the period covered by the report, 2007 to 2016. The compound average growth rate (CGAR) for the period 2000-2005 has been applied to 2005 data to obtain 2007 estimates, and the CGAR for the period 2010-2015 to obtain 2016 estimates.

#### Remittance costs and types of RSPs present in the market

7. The period retained to analyse cost trends was determined by the period included in the most recently updated dataset provided in the World Bank's *Remittance Prices Worldwide (RPW)* database, covering the period from the first quarter of 2011 to the last quarter of 2016.<sup>24</sup>

8. The global average costs for the years 2011 and 2017 have been extracted from the World Bank's *Remittance Prices Worldwide*; Issue n°3, November 2011; and Issue n°21, March 2017.

9. For each regional subset of receiving countries (as per UN DESA regional and sub-regional classification), the average cost to send US\$200 for transparent RSPs has been calculated for the related receiving countries and is available in the RPW database covering the period Q1-2011 to Q1-2017.

#### Remittance flows

10. Market concentration is based on a sample of outbound countries for which information is available in the World Bank's RPW database. These countries, representing 70 per cent of remittance flows, include Canada, Germany, Italy, Japan, Malaysia, the Netherlands, the Russian Federation, Saudi Arabia, Singapore, South Africa, Spain, United Arab Emirates, the United Kingdom and the United States. Market share data are unknown for most RSPs. Only those businesses with an estimated share of 1 per cent or more are included in the database.

11. The World Bank data of April 2017<sup>25</sup> were utilized to calculate the migrant remittance inflows to receiving countries for 2016 and the remittances/GDP ratio for 2015 (which is the latest year of reference for this ratio).

#### Population and GDP

12. The population and GDP data come from the World Development Indicators (WDI) as of March 2017. For both population and GDP, the most updated data were from 2015.

13. For population, the 2015 annual growth rate provided by the WDI online database has been applied to 2015 data for each receiving country to obtain 2016 estimates.

14. For GDP, 2015 was kept as the reference year in the absence of updated estimates.

<sup>24/</sup> The World Bank, *Remittance Prices Worldwide*, available at <http://remittanceprices.worldbank.org>.

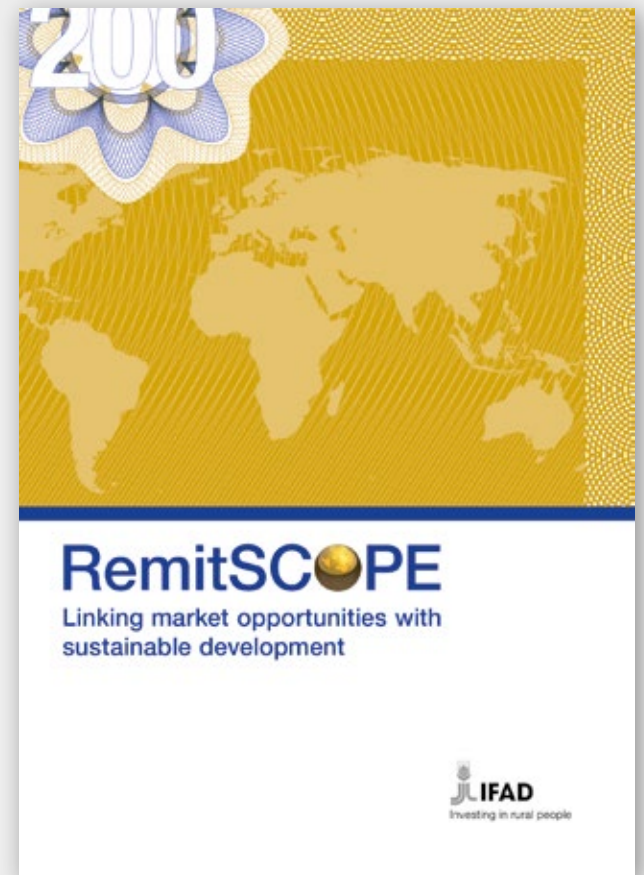
<sup>25/</sup> <http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues>.

# Sending Money Home publications

In 2007, the FFR's Sending Money Home report provided the first-ever estimates of worldwide remittances to developing countries. Since then, the FFR periodically releases new studies under the title Sending Money Home, focusing on central issues affecting remittances from both a global and regional perspective, and stressing the impact of remittances in the developing regions of the world. Sending Money Home provides comparative indicators to measure the importance of remittances among regions and subregions, and highlights their potential to stimulate local economic activity. The studies also review regulatory and remittance market issues and latest trends in financial intermediation, as in the case of Sending Money Home to Africa, Sending Money Home to Asia, and Sending Money Home Europe publications of 2009, 2013 and 2015, respectively. Find the reports here: [www.ifad.org/remittances/publications.htm](http://www.ifad.org/remittances/publications.htm)



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June 2017