

# The Effective Use of Remittances in Promoting Economic Development

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# Positive Effect on the Economies and Development Prospects of Countries of Origin

1. Generate a steady stream of foreign-exchange earnings that a) can **improve a country's creditworthiness for external borrowing**, and, b) through innovative financing mechanisms, **can expand access to capital and lower borrowing costs**.
2. Have a large **positive effect on national income**
3. Contribute significantly to **poverty reduction and income inequality**
4. In case of macroeconomic shocks, they **smooth consumption and contribute to the stability of recipient economies by compensating for foreign exchange losses**



# Positive Effect on the Economies and Development Prospects of Countries of rigin

May **promote financial development**

Since they **relieve credit and insurance constraints** overcoming capital market imperfections, they **allow for accumulation of positive assets**.

Increased Investment may spur entrepreneurial activity = **Positive Effect on Economic Growth**



# Macroeconomic Fears

- a) Can **contribute to currency appreciation and make the production of cost-sensitive tradables less profitable** (ex: labour intensive manufactures and cash crops)
  
- a) May **negatively affect labour supply** since remittance-recipients households may choose more leisure than labour



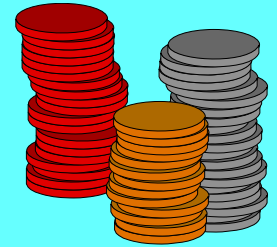
# Developmental Impact at the micro-level

Households spend remittances not only in consumption but also invest them in:

**Human Capital** (education and health care, reduction of child labour)



**Physical Capital** (Micro-enterprises, property and purchase of machinery)



**Financial capital** (savings and investments)



# Effective Policy Tools and Strategies to Enhance Remittances' Developmental Impact

- **Reduction of transaction costs** of remittances transfer and **dissemination of information** on types of transfer channels to use, as well as establishment of voluntary codes of conduct for fair transfers.
- **Strengthening of the formal financial infrastructure** supporting remittances, mainly increasing competition and improving the technology of money transfers and its presence in smaller communities, etc.
- **Improvement of access to financial services** in recipient economies as well as in sending economies for migrants and their families back home (ex: ID cards for migrants, allowing domestic banks to operate overseas)



# **Other Accompanying Policies contributing to enhance their developmental impact**

- 1. Tax exemptions for remittance income**
- 2. Incentives to attract diaspora investments with income tax breaks**
- 3. Access to foreign exchange and lower duties on imports**
- 4. Support for migrant associations' projects including matching grants, bonds, loans or pension schemes targeted at the diasporas**

# ILO's major areas of work:

## Social and Labour Aspects of Remittances

- **Legislation:** Review existing laws and regulations.
- **Policy:** Advice Govts to enhance the developmental impact of remittances by adopting effective policy tools and strategies.
- **Social dialogue:** involve workers and employers' organisations in projects.

### TECHNICAL AREAS:

- **Social Finance Programme:** Provide incentives, inform, and link migrant workers with social finance institutions
- **SEED: Micro-enterprise development** leading to job creation
- **SKILLS:** Recognition of diplomas and competencies avoiding de-skilling
- **MIGRANT:** Labour protection of migrant workers, expanding avenues for regular labour migration, promoting better working conditions (ex: bilateral agreements and monitoring of Private Employment and Recruitment Agencies)



# Remittances and ILO's Social Finance Programme

***Social Finance*** : Encourage social finance institutions and credit unions to attract, channel and administer remittances (ex: providing attractive credit opportunities)

***Migrant workers***: Increase recipient's access to financial services, particularly to products that facilitate productive use of remittances =

Remittances channeled through bank accounts **may encourage savings and investment to support business and consumer loans, insurance and other financial products** supporting health, education, housing, retirement & community development

# Remittances and Micro-Enterprise Development

**Migrant worker**

**BUSINESS  
GUIDANCE**

**TECHNICAL  
ASSISTANCE**

**TRAINING**

**CREDIT**

**SALES  
PROMOTION**

**TECHNOLOGY**





**Remittances can be attracted to strategic sectors  
with potential for productive investment:  
increasing employment and production**

**Policy incentives should opt for productive investments with a greater value added that rely mainly on locally available resources (raw materials, human resources, etc), that fall on strategic sectors that have the potential to generate employment or trigger a process of regional development**

**The effect of rising incomes of the migrant sender thanks to respect for minimum wage laws, decent working conditions & employment opportunities shows up as an increase in remittances =**

**Highly-skilled migrants have a higher propensity to invest at home and remit larger sums**

**Governments are increasingly concerned about the treatment of their migrant workers abroad and point to the pressing need for greater respect for their fundamental human and labour rights and internationally recognised labour standards**



**Recruitment agencies/  
other intermediaries and sponsors**

*Documented  
migrant*

*Migration  
status*

*Undocumented  
migrant*

*What type of  
Employment  
Opportunities for  
migrant workers?*

**Size of the surplus  
that remitters are  
able to send**

*Abusive and  
exploitative vs  
good Working  
Conditions?*

*Are minimum wages  
respected? Do  
migrants receive  
their wages?*

**Transfer channels**

*Are their  
diplomas, skills  
and competencies  
recognised?*



- accessibility
- reliability
- efficiency
- cost



**B E N E F I C I A R I E S**



# International Labour Conventions

## *Convention No. 97 (1949) Migration for Employment*

Article 9 "each Member for which this Convention is in force undertakes to permit, taking into account the limits allowed by national laws and regulations concerning export and import of currency, the transfer of such part of the earnings and savings of the migrant for employment as the migrant may desire"

## *Convention No. 143 (1975) Migrant Workers (Supplementary Provisions)*

Principle of equal treatment and opportunities of migrant workers with nationals



# *International Labour Conference, June 2004*

## « An ILO Plan of Action for Migrant Workers »

- ILC Conclusions recognized the positive contribution of international labour migration and called for **maximizing its benefits for employment, growth and development** in both countries of origin and destination
- **Part of the broader commitment to promoting decent work:** promote policies that give priority to economic growth and employment, and encourage **regular** labour migration



# ILO Multilateral Framework on Labour Migration

- **Providing incentives to promote the productive investment of remittances** in the countries of origin.
- **Reducing the costs of remittance transfers, including by facilitating accessible financial services**, reducing transaction fees, providing tax incentives and promoting greater competition between financial institutions.
- **Promoting and providing incentives for enterprise creation and development**, including transnational business initiatives and micro-enterprise development.

# ILO's research work

- ILO country studies:

**Bangladesh, Burkina, Mali, Mexico, Nepal, Senegal, South Africa**

Action-research to **advise on policy options, improve institutional performance, enhance markets, strengthen the bargaining position of migrant workers**

Migrant workers are more likely to maximise their potential as remitters in environments where minimum wage laws and basic labour and human rights standards are respected.

Migration if well-managed can result in a win-win situation where the migrant, as well as the countries of origin and destination may reap the benefits of human mobility.

