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Migration, Diasporas and the Sustainable Development Goals in Least Developed Countries

*Keith Nurse**

ABSTRACT

Migration and the growth of global diasporas are key contemporary trends which impact on the pledge to “leave no one behind” in the 2030 Agenda. The developmental potential of migration is captured in four Goals and five Targets in the Sustainable Development Goals (SDGs). The paper offers critical perspectives on the SDGs targets with a discussion on the economic challenges as well as the opportunities for trade and entrepreneurship. The focus is particularly on remittances (including South-South remittances) and other financial investments such as diaspora savings and bonds. The second area of analysis is financial innovation through the growth of money transfer organizations in LDCs (i.e. Haiti, Tonga and Bangladesh) and the rise of mobile money. The paper also discusses the impact of these trends on financial inclusion and the banking of unbanked populations, and concludes with key recommendations and insights.

Keywords: International migration, diasporas, international public policy, economic globalization, remittances, trade and entrepreneurship, 2030 agenda, SDGs, LDCs

JEL Classification: F22, F24, F5, F6

* Keith Nurse is a Senior Fellow of the Sir Arthur Lewis Institute of Social and Economic Studies; WTO Chair at the University of the West Indies, Barbados; and a member of the UN Committee for Development Policy (CDP). All errors remain those of the author.

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Typesetter: *Nardos Mulatu*

UNITED NATIONS
Committee for Development Policy
UN Secretariat, 405 East 42nd Street
New York, N.Y. 10017, USA
e-mail: cdp@un.org
<http://cdp.un.org>

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1 Introduction

Migration and the growth of global diasporas are key contemporary trends which impact on the pledge to “leave no one behind” in the 2030 Agenda. The developmental potential of migration is captured in four Goals and five Targets in the Sustainable Development Goals (SDGs). The inclusion of migration in the SDGs targets gives further international prominence to migrant rights, labour mobility and remittances as development issues. In many respects the SDGs are built into goal 19 of the Global Compact on Migration that calls on countries and other key stakeholders to “create conditions for migrants and diasporas to fully contribute to sustainable development in all countries”.¹

Migration has been a powerful mechanism to reduce poverty and global inequality within and across nations.² In the contemporary development context migration can be viewed as a strategic opportunity for least developed countries (LDCs) because “not only is poverty systematically higher in LDCs, and falling more slowly, but the means available to them are also much more limited.”³ This is underscored by the assessment that “their structural challenges and weak economic and social performance are rooted in the limited development of their productive capacity.”⁴ From this perspective it is argued that “migration is relevant to many of the other Goals” and that countries “need to consider the impact of migration at all levels and on all outcomes, beyond the migration-specific Targets.”⁵

As such the key question that arises is how can the development agenda embedded in the SDGs facilitate and give further impetus to the transformative potential of the migration and development process thereby benefitting migrants, their families and the sending countries. A critical element of this agenda would be to ask the question how can LDCs tap into the rise of the diasporic economy to enhance production capabilities at home, boost economic diversification and promote new higher value-added exports as well as redress the depletion of valuable human resources (i.e. brain drain).⁶

The paper argues that maximizing on the migration and development nexus requires a broader conceptualization of the migration process to include the role of diasporas in the development equation. Consequently, the paper first provides an overview of the key trends associated with contemporary migration and its impact on the achievement of the SDGs. Next is a focus on the rise of the diasporic economy as a dynamic feature of the global economy and its contribution to trade, investment and entrepreneurship. The paper then examines key issue areas identified in the SDGs targets that impact on the development potential of migration and diasporas, particularly remittances (including South-South remittances),

1 The global compact for migration will be the first, intergovernmentally negotiated agreement, prepared under the auspices of the United Nations, to cover all dimensions of international migration in a holistic and comprehensive manner. For further details see: <https://refugeesmigrants.un.org/migration-compact>.

2 Adams, R. & J. Page (2003) *The Impact of International Migration and Remittances on Poverty*. (Washington: World Bank Policy Research Working Paper, No. 3069); Adams, R. & J. Page (2005) “Do International Migration and Remittances Reduce Poverty in Developing Countries?” *World Development* Vol. 33, No. 10: 1645–1669.

3 UNCTAD *Least Developed Countries Report 2015*: 14. http://unctad.org/en/PublicationsLibrary/ldc2015_en.pdf

4 Committee for Development Policy (2017) *Expanding Productive Capacity: Lessons Learned from Graduating Least Developed Countries*. United Nations; New York. <https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/2017-cdp-policy.pdf>

5 ODI (2017). *Migration and 2030 Agenda for Sustainable Development*. Overseas Development Institute, London: 4.

6 See Nurse, Keith (2016) “The Diasporic Economy, Trade and Investment Linkages in the Commonwealth.” *International Trade Working Paper*, No. 2016/09, Commonwealth Secretariat, London.

mobile money and other financial transfers such as diaspora savings and bonds. The paper concludes with some key recommendations and insights.

2 Migration and the SDGs

Migrants are often subject to official and unofficial discrimination practices, xenophobia, stigmatization, violence, exploitative work conditions and social marginalization and so are amongst the most vulnerable social groups globally and thus key to achieving the SDGs and “leaving no one behind”. A key factor is the social position of the migrants in the new host societies. Addressing workers rights (especially women migrants, seasonal workers) and eliminating discrimination of migrants’ access to housing, healthcare and education are considered as key issues to redress the problems faced by immigrants.

The evidence on migration and suggests that there is real cause for concern. For example, in the last few decades the educational and income gap between immigrants and US-born workers has widened. Whereas in 1970 immigrants earned 1% more than their native counterparts by 1980 they earned 10% less and by 1990 the gap had expanded to 17%. The gap for Mexicans and Central Americans is particularly wide with the gap being 25-40% in 1970 and 50% in 1990.⁷ An EU report on migrants and social conditions published in 2010 points out that:

Migrants are more likely to be socially excluded [than] the local population. The share of migrants at risk of exclusion or poverty is relatively high. On average, 26% of non-EU migrants and 19% of EU migrants are at risk of poverty, compared to 17% of the “local” population. are more likely to be socially excluded [than] the local population. The share of migrants at risk of exclusion or poverty is relatively high. On average, 26% of non-EU migrants and 19% of EU migrants are at risk of poverty, compared to 17% of the “local” population.⁸

The issues for South-South migrants is also considerable. Indeed, in many developing countries that are net recipients of migrants there is tendency to ignore integration policies for immigrants. As a consequence immigrants are often scapegoated and ghettoized resulting in health problems, social disintegration, ecological destruction and key security challenges that ultimately spillover into the wider host community.⁹

Migration and issues affecting migrants are referenced in several Sustainable Development Goals. The situation of migrant workers is highlighted in SDG 8 on economic growth and decent work; the issue of trafficking is mentioned in several SDGs for instance SDG 16 on peaceful societies; and migration status is mentioned specifically as a factor for disaggregation during the follow-up and review in SDG 17. SDG target 10.7 calls for “well-managed migration policies”, and 10C refers to reducing the transaction costs for migrant remittances.

Overall, it can be argued that the SDGs recognize migration’s critical contribution to achieving sustainable development and consequently migration has for the first time been inserted into mainstream global development policy. It is also that the multi-disciplinary and cross-cutting nature of the SDGs provides a useful framework to assess and promote migration and development. The SDGs also facilitate high-level buy-in from global institutions and UN member states and so the migration and development agenda has greater scope for international traction and implementation.¹⁰

⁷ IOM (2000). World Migration Report 2000. (Geneva: International Organization for Migration copublished with the United Nations): 247.

⁸ Orsolya Lelkes and Eszter Zolyomi, Detailed analysis of the relative position of migrants. Research Note 1/2010. European Centre for the European Centre for Social Welfare Policy and Research November 2010: 8.

⁹ OECD (2011) “Immigrant Integration in the South” in Tackling the Policy Challenges of Migration: Regulation, Integration, Development. OECD Publishing.

¹⁰ ODI (2017). Migration and 2030 Agenda for Sustainable Development. Overseas Development Institute, London: 2.

The SDGs provide a holistic and comprehensive framework to ground the migration-development nexus in the GCM. It will be important not to limit the focus to specific targets on migration and remittances, but rather consider the role of human mobility to achieve all the Goals.¹¹

The Global Compact on Migration embraces this wider vision and in this sense can be defined as a milestone in the history of the global migration dialogue. It is guided by the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda, and informed by the Declaration of the High-level Dialogue on International Migration and Development adopted in October 2013. The Global Compact presents a non-legally binding, cooperative framework that builds on the commitments agreed upon by Member States in the New York Declaration for Refugees and Migrants (September 2016) which states that:

In adopting the 2030 Agenda for Sustainable Development one year ago, we recognized clearly the positive contribution made by migrants for inclusive growth and sustainable development. Our world is a better place for that contribution. The benefits and opportunities of safe, orderly and regular migration are substantial and are often underestimated. Forced displacement and irregular migration in large movements, on the other hand, often present complex challenges.¹²

The New York Declaration references the 2030 Agenda and upholds the sovereignty of States and fosters international cooperation among all actors on migration, acknowledging that migration is a transnational process and that no State can address migration in isolation. The GCM consultation process also highlighted the need for a fresh narrative that goes beyond the negative connotations and perceptions that are present in both migration and development debates. It is specifically recommended that three key areas be incorporated into the debate:¹³

- **Investment.** Beyond aid or remittances alone, focus on investing in future societies for all, in line with the ‘leave no one behind’ imperative. This includes harnessing the potential of diaspora, civil society innovators and entrepreneurs as private sectors and civil society.
- **Innovation.** Build and expand on the initiatives that already exist especially at local and country levels: diaspora bonds, global skills partnership, extension of rights for citizens on the move, financial inclusion through digital technology/mobile money, training and skills matching/investment etc.
- **Inclusion.** It is key for development and migration policies to be inclusive and not targeted at specific groups alone. They also need to be explicitly aimed at expanding rights and opportunities. In practice, there is a need to broaden access to services, ensure portability of benefits and expand access to inclusive finance.

The above assessment suggests that the discourse on the SDGs and migration should aim to capture the potential of wider diaspora relations hence the need to widen the unit of analysis beyond migrants and the sending or receiving countries to appreciate the role of a wider group of stakeholders. In the following sections the paper aims to offer critical perspectives on the growth of a diasporic economy and the ways it relates to the issues of investment, innovation and inclusion.

3 Migration and the Diasporic Economy

It is estimated that in 2017, 258 million people, or 3.4 per cent of the world’s population, lived outside their country of origin. The number also includes refugees and asylum seekers which is estimated at 25.9 million, approximately 10 per cent of all international migrants, 82.5 percent of which were hosted in developing regions. Most international migrants move to a country located in their region of birth except for migrants to North America which mainly come from the Latin America and Caribbean region. The top-receiving region is Asia with close to 80 million migrants. Europe is a close

¹¹ ODI (2017). Migration and 2030 Agenda for Sustainable Development. Overseas Development Institute, London: 4.

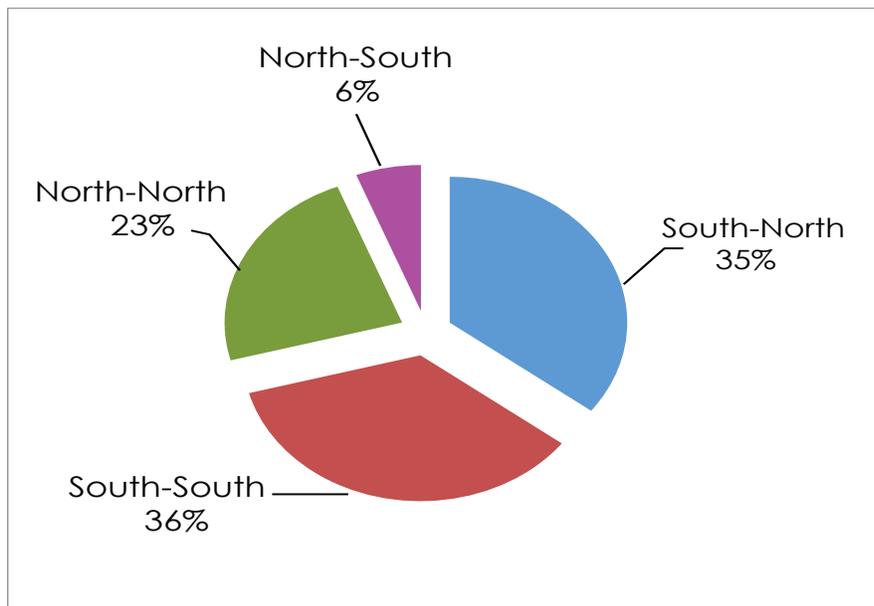
¹² See <https://refugeesmigrants.un.org/declaration>

¹³ ODI (2017). Migration and 2030 Agenda for Sustainable Development. Overseas Development Institute, London: 5.

second with 78 million, followed by North America with 58 million. Africa is the top-receiving region in the developing world with 24.7 million with Latin America and the Caribbean (9.5 million) and Oceania (8.4 million).¹⁴

As the above illustrates international migration is very diversified. In 2015 South-South migration accounted for 36% of total international migrants which edged out South-North migration (35%). North-North migration is the third largest flow with 23% and North-South accounts for a mere 6%. Notably, international migrants accounted for a mere 1.6 per cent share of the population of the global South in 2013, in comparison to 10.8 per cent of the population of the industrialized North (see Figure 1).¹⁵

Figure 1
International Labour Migration, Regional Flows, 2015



Source: IOM 2017 International Migration Data Portal <https://migrationdataportal.org/> (accessed September 03 2018)

Tapping into the growth of diasporic communities has emerged to be one of the most important strategic political and economic resources for developing countries in the late twentieth and early twenty-first century. Indeed, it can be argued that the growth of global diasporas in last few decades has led to a new development context with economic flows like financial transfers (remittances) playing a critical role in poverty reduction, enterprise development as well as the securitization of debt.¹⁶ In addition, for many developing countries remittances have exceeded traditional modes of external inflows like foreign aid, foreign direct investment and external borrowing.¹⁷

¹⁴ United Nations, Department of Economic and Social Affairs, Population Division (2018). International Migration Report 2017: Highlights ST/ESA/SER.A/404.

¹⁵ OECD and United Nations Department of Economic and Social Affairs (UN DESA), World Migration in Figures: A Joint Contribution by UN-DESA and the OECD to the United Nations High-Level Dialogue on Migration and Development, 3–4 October 2013, <http://www.oecd.org/els/mig/World-Migration-in-Figures.pdf> (accessed 19 November 2014).

¹⁶ Keith Nurse, “Migration, Diaspora and Development in Latin America and the Caribbean” *International Politics and Society* (2: 2004): 107-126.

¹⁷ Dilip Ratha and Sonia Plaza, “Harnessing Diasporas: Africa can tap some of its millions of emigrants to help development efforts” *Finance & Development*, September 2011: 48-51.

The diasporic economy, however, is wider than just financial transfers (see Figure 2). It includes the economic impact of trade in goods targeted at niche, ethnic or diasporic markets, services such as tourism, shipping, telecoms and media along with the monetization of intellectual property through the creative industries, geographic indications and tapping into networks of trade, scientific and professional diasporas. The latter refers to the issue of brain circulation which are the mechanisms (e.g. return migration, mobility of professional services) that have been employed to redress the challenges associated with brain drain (i.e. the emigration of the tertiary educated).¹⁸

Many developing countries have seized the opportunities embodied in these flows and have reaped huge rewards through strategic diaspora engagement programmes. For example, countries like the Peoples Republic of China, India, Israel, Mexico, El Salvador have targeted their diasporic communities for trade, investment and technology transfer (i.e. brain gain).¹⁹ Similar opportunities are available for small states and LDCs as they tend to have large diasporic communities in relative terms.²⁰

The growth of international migration and the proliferation of global diasporas relates to a new transnationalism and geo-economics in which non-state actors play an increasingly critical role in international relations and development outcomes.²¹ The economic flows associated with migration and the growth of diasporas have improved access to non-traditional finance, investment and savings that have surpassed traditional sources of external capital (e.g. FDI, ODA, debt, and portfolio investments) for many developing countries and LDCs in the last two decades or so.²² The growth of what can be described as a diasporic economy has also facilitated the expansion of bilateral trade in goods, services and intellectual property along with new forms of entrepreneurship and social innovation between sending and receiving countries and regions. These economic flows and the attendant social formations have impacted poverty reduction and inequality through expanded life capabilities for migrants and their households, families, communities in both home and host nations.²³ In short, migration is not a zero-sum game.

¹⁸ “Strategic Opportunities in Caribbean Migration: Brain Circulation, Diasporic Tourism and Investment” see the special edition of the Canadian Foreign Policy Journal (2011: 17.2) <http://www.tandf.co.uk/journals/rcfp>.

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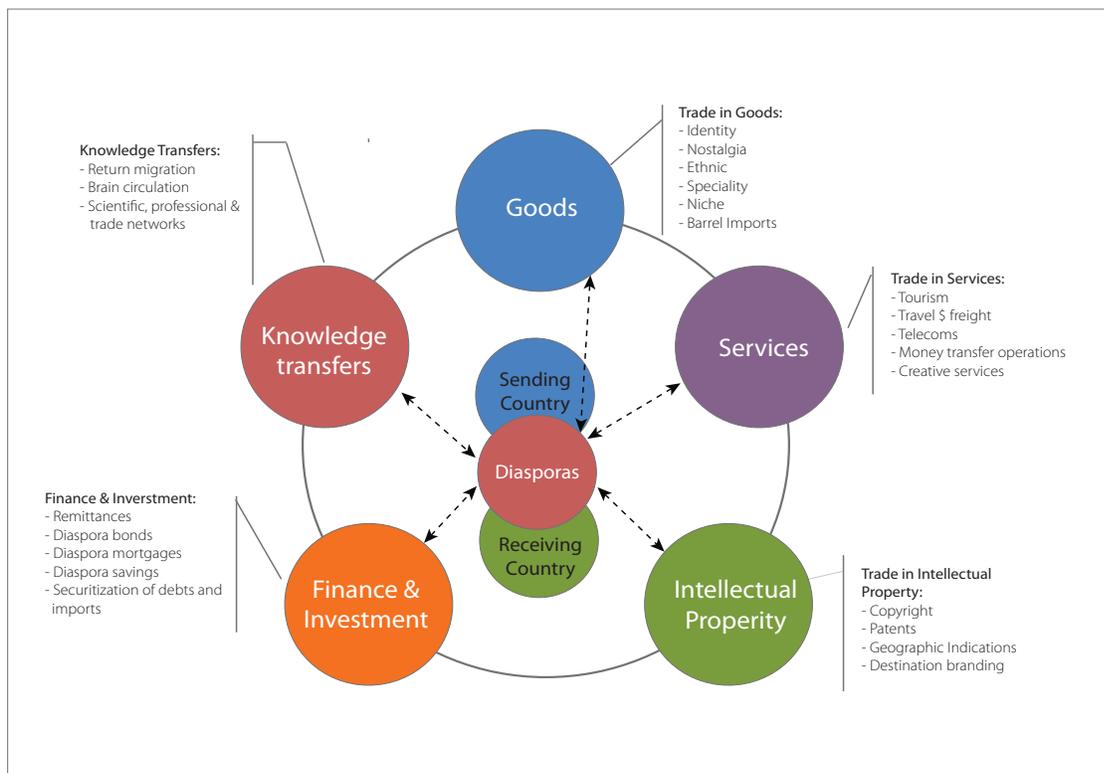
²⁰ Terrazas, A. (2010) ‘Diaspora Investment in Emerging Markets: Patterns & Prospects’ (Diasporas and Development Policy Project, Migration Policy Institute, August 2010).

²¹ See Robin Cohen, *Global Diasporas: An Introduction*, 2nd ed. (London and New York: Routledge, 2008).

²² For example see Sonia Plaza and Dilip Ratha (eds.), *Diaspora for Development in Africa* (Washington, D.C.: The World Bank, 2011).

²³ Adams, R. & J. Page (2003) *The Impact of International Migration and Remittances on Poverty*. (Washington: World Bank Policy Research Working Paper, No. 3069); Adams, R. & J. Page (2005) “Do International Migration and Remittances Reduce Poverty in Developing Countries?” *World Development* Vol. 33, No. 10: 1645–1669.

Figure 2
Diasporic Economy, Trade, Knowledge and Investment



Source: Keith Nurse "The Diasporic Economy, Trade and Investment Linkages in the Commonwealth", International Trade Working Paper, No. 2016/09, Commonwealth Secretariat, London.

The impact of migration on the global development agenda is undeniable. This is exemplified by the emergence of a range of international institutions and regimes to govern international migrations such as the Global Forum on Migration and Development²⁴, the Global Compact on Migration²⁵, the Global Knowledge Partnership on Migration and Development (KNOMAD) at the World Bank and the September 2016 UN General Assembly resolution entitled the New York Declaration on Refugees and Migrants. The work of the International Organization for Migration and the International Labour Organization continues on issues affecting the human and labour rights of migrants.

In contrast, public opinion in many of the receiving countries is often coloured by negative stereotypes and media images. The issue of migration also has become increasingly vulnerable to populist and xenophobic rhetoric amid fears about economic stagnation and structural unemployment particularly since the global financial crisis of 2008–2009. This is clearly evident in recent political developments on both sides of the North Atlantic (i.e. Brexit in the UK; the election of President Trump; the rise of far-right parties throughout Europe) where migration has been blamed for terrorist activities, crime and the loss of jobs to nationals. South-South migrants are also confronted with resentment over jobs and wages as well as concerns about security and health.

The literature on migration is dominated by the immigration concerns of the main receiving territories in the OECD where the focus has largely been on issues of political and social integration, managing labour markets and border

²⁴ GFMD (2013). Unlocking the potential of migration for inclusive development. Concept Paper. Global Forum on Migration and Development 2013/14.

²⁵ See https://refugeesmigrants.un.org/sites/default/files/180205_gcm_zero_draft_final.pdf

controls. The developmental impact of emigration on sending countries and the rising role of south-south migration have generated much less debate but they are nonetheless critical areas of change in contemporary global dynamics.²⁶ Other key issues are the demographic transitions and the ageing of the population and the need for replacement labour in the developed and high-income economies.

The historical record suggests that international migration has had big effects on internal income distribution, both in the sending country and in the receiving country.²⁷ Emigration has been an effective way for countries to reduce poverty, raise their living standards and advance industrial transformation.²⁸ For instance, it is estimated that approximately 60 million Europeans emigrated to the New World between 1820 and 1914 and that some European countries exported as much as 25 - 40 percent of their population in the nineteenth century. Britain alone accounted for as much as 37% of the European migration during this period. The other major sending countries were Italy, Germany, Austro-Hungary, Spain, Russia (including Poland) and Portugal. The bulk of the European migrants went to the United States (61.8%), Argentina (9.1%), Australasia (8.3%), Canada (8.1%) and Brazil (6.7%).²⁹ There is a general recognition that the benefits outweigh the losses associated with migration but it is argued that the vent of surplus population is not a sufficient condition to generate social transformation in the sending countries.

From this standpoint international migration needs to be viewed as a global development issue taking into account the context of the migrants and the receiving and sending countries.³⁰ However, the key challenge is that the developmental dimensions of migration and diasporas remains largely unmapped because of the paucity of data and information in both migrant-sending and migrant-receiving countries on the roles and linkages of diaspora communities, as well as on the economic flows associated with the diasporic economy. It is also that migration has a significant development impact for many LDCs, particularly the small states that tend to have relatively large diasporic communities and so are highly exposed to the transnationalism of global diasporas which influences everything from domestic politics to disaster responses.

4 Remittance Transfers and Development

Remittances, personal money transfers and compensation of employees, has become one of the main sources of external financing for developing countries. Remittances have proven to be a critical resource for many developing countries in terms of balance payments.³¹ However, it is important to note that migration is very much a family decision and remittances are seen as part of a bond or contract between remitters and their families and dependants that are left behind. Remittances are a major source of income for many lower income households. It is estimated that over 80 percent of the funds that are remitted is used for immediate consumption. However, an increasing share of remittances is used for longer-term investment in land, housing, education and productive investments. Remittances have become a major factor

26 Timothy J. Hatton and Jeffrey G. Williamson, "What fundamentals drive world migration?" NBER Working Paper Series, 2002.

27 Kevin Hjortshøj O'Rourke, "The Era of Migration: Lessons for Today", Centre for Economic Policy Research, London, July 2004. http://www.cepr.org/active/publications/discussion_papers/dp.php?dpno=4498 (accessed 7 November 2017).

28 See Stahl, C.W. (1982). Labor Emigration and Economic Development. *International Migration Review*, 16(4): 869-899; Stalker, P (2003). The impact of migration in countries of origin. In *The link between migration, globalization and development*, pp. 62-78. Noordwijk A/D Zee, The Netherlands: Novib Expert Meeting Report; Swanson, J. (1979). *Emigration and economic development: The case of the Yemen Arab Republic*. Boulder CO: Westview Press.

29 Kenwood A.G. and A.L. Lougheed (1992) *The Growth of the International Economy, 1820 – 1990: An Introductory Text*. New York: Routledge.

30 Mittelman, J.H. (2000) *The Globalization Syndrome: Transformation and Resistance*. Princeton: Princeton University Press; Nayyar, D. (2002) "Cross-border Movements of People" in D. Nayyar, ed. *Governing Globalization*. (Oxford: Oxford University Press): 144-173.

31 World Bank (2013) "Migration and Remittance Flows: Recent Trends and Outlook, 2013-2016" *Migration and Development Brief* 21: 1-2.

in poverty reduction in the developing world. However, the benefits for low-income communities could be expanded and local investment can be boosted if remittances are used by financial institutions to expand and deepen access to credit by remittance recipients.³² This is particularly important for promoting financial inclusion given that many of the top remittance recipient countries have large unbanked populations.

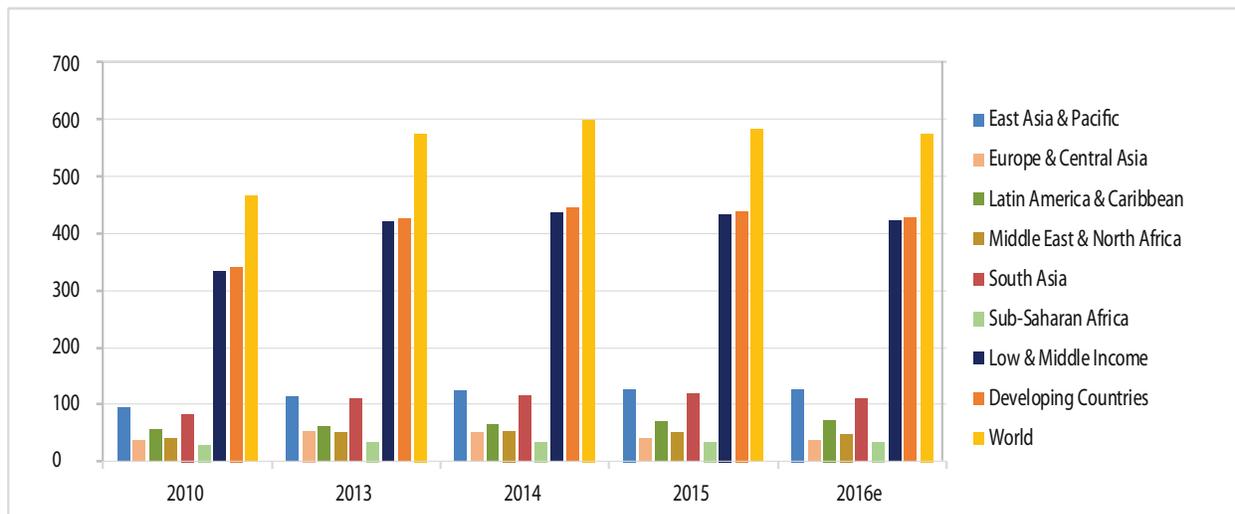
Low and middle-income economies are the key beneficiaries of remittance flows with East Asia and the Pacific as the number one recipient followed by South Asia, Latin America and the Caribbean, Middle East and North Africa, Europe and Central Asia and lastly Sub-Saharan Africa (see Figure 3).

Remittances were affected by the global financial and economic crisis as exemplified by a drop of 6.1 percent in 2009 on account of the weak jobs market.³³ Remittance flows rebounded in 2010. However, it is important to note that for the first time in recent history, remittance flows to developing countries registered a decline for two successive years. Remittances declined by an estimated 2.4 percent, to \$429 billion, in 2016, after a decline of 1 percent in 2015. The decline in remittance flows are largely attributed to the following factors:

- Low oil prices and weak economic growth in the Gulf and the Russian Federation has adversely affected flows to South Asia and Central Asia.
- Weak growth in Europe affected flows to North Africa and Sub-Saharan Africa.
- The weakening of the Euro, the British pound and the Ruble against the U.S. dollar.

Figure 3

Remittance flows by region, 2010 – 2016 (Billion US dollars)



Source: World Bank (2017) Migration and Development Brief: Migration and Remittances: Recent Developments and Outlook, 28. KNOMAD <https://www.knomad.org/sites/default/files/2017-12/Migration%20and%20Development%20Report%202012-14-17%20web.pdf>

Focusing specifically on the LDCs what is evident is that the top ten receiving countries in 2015 are broadly distributed among African (i.e. Senegal, Uganda, Ethiopia, Mali, Liberia) and Asian (i.e. Bangladesh, Nepal, Yemen and Myanmar) economies along with Haiti, the only LDC in the Americas. The top ten receivers (US\$ 35.7 billion) accounts for close to ninety percent of the total remittances received in LDCs (US\$ 40.5 billion). There is an equally high level of concentration among the top ten remittance senders (US\$ 31.4 billion) to LDCs which accounts for close to eighty percent of

³² See World Bank, Migration and Development Brief 24, April 13, 2015.

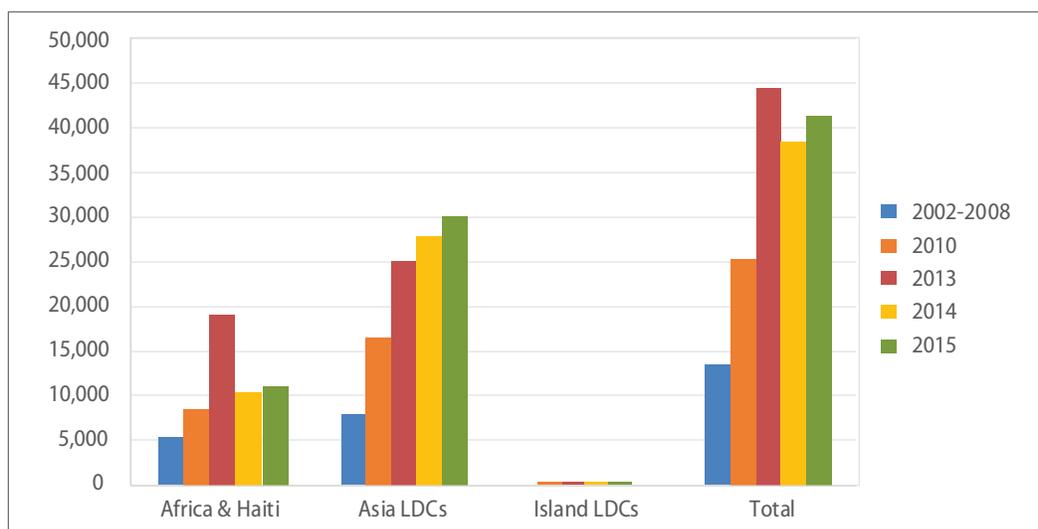
³³ Sanket Mohapatra and Dilip Ratha (2010) "Impact of the Global Financial Crisis on Migration and Remittances" Economic Premise 2: 1.

total remittances. The top ten senders are spread among high-income (i.e. US, UK, France), Middle East (Saudi Arabia, Qatar, Kuwait, United Arab Emirates), and Asian economies (India and Thailand) along with Cote D'Ivoire.

As Figure 4 shows there has been rapid growth in remittances over the period 2002 to 2015. Indeed, the remittances inflows to LDCs in 2010 exceed the total inflows for the 2002-2008 period. Asia LDCs are the leading regional grouping with remittances jumping rapidly from sixteen billion in 2010 to thirty billion in 2015. Remittance flows to African LDCs, which is grouped with Haiti, has had more modest growth from \$8.5 billion in 2010 to \$11 billion in 2015. Island LDCs though small experienced a four-fold increase in remittance flows from 2002 to 2015 with flows growing from \$69.7 million in the period 2002-2008 to \$283.1 million in 2015.

Figure 4

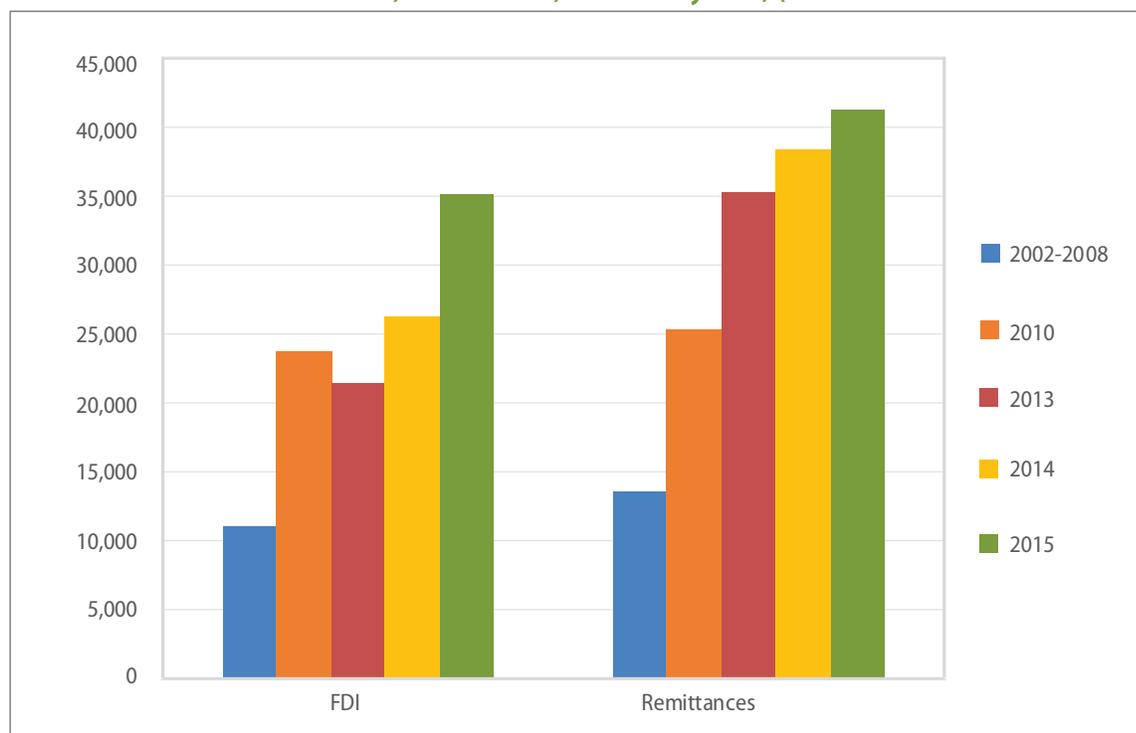
Remittance inflows to LDCs, 2002-2015, selected years (Million of current US dollars)



Source: UNCTAD (2016) The Least Developed Countries Report 2016: The Path to Graduation and Beyond – Making the Most of the Process. https://unctad.org/en/PublicationChapters/lcd2016_intro_en.pdf

Remittance flows to LDCs has consistently outpaced FDI flows, the next largest source of external capital, for at least the last two decades as shown in Figure 5. In the period 2002-2008 FDI was estimated at approximately \$11 billion and doubled by 2010 to close to \$24 billion and then grew by almost 50 percent by 2015 to \$35 billion. Even this impressive growth was topped by remittance flows starting with \$13 billion in the 2002-2008 period that was almost doubled to \$25 billion in 2010. Remittance flows were \$41 billion by 2015.

Figure 5
FDI and remittances to LDCs, 2002-2015, selected years, (Million of current US dollars)



Source: UNCTAD (2016) The Least Developed Countries Report 2016: The Path to Graduation and Beyond – Making the Most of the Process. https://unctad.org/en/PublicationChapters/lcd2016_intro_en.pdf

South-South Remittances

South-South remittances are a significant share of total flows. Best estimates range from a low of 9.3% of total remittances to a high of 29.5% and an intermediate rate of 18.2%. South-South remittances among LDCs are relatively small amounting to approximately US\$ 2 billion in 2015. This is likely to be a gross underestimate since a large share of South-South or intra-regional remittances are conducted through informal channels (e.g. hawala; cash, etc.). The data capture in this area is very weak due not only to the informal nature of the transactions but also because of either the high cost or inaccessibility of mainstream banking services and the low level of reporting in developing countries.³⁴

South-South remittance costs tend to be higher than North-South remittances because of lack of competition in the remittance market in both the sending and the receiving countries. Often remittance fees vary significantly in the same bilateral corridor depending on the direction of the flow. For example, it is estimated that “the cost of remitting \$200 from Kuala Lumpur to Jakarta is about 6 percent, whereas that from Jakarta to Kuala Lumpur is more than 13 percent”.³⁵ The cost of remitting is also impacted by other factors such as local regulations (e.g. some LDCs have an outright ban on outward remittances), and the policies of cambios in relation to how they manage exchange rate commissions and exchange rate differences. For example it is noted that “converting local currency of the source country to the US dollar or the euro and again back to the local currency of the beneficiary’s country nearly doubles the foreign exchange commission”.³⁶

³⁴ Sanket Mohapatra and Dilip Ratha, eds. (2011) Remittance Markets in Africa. World Bank, Washington DC.

³⁵ Dilip Ratha and William Shaw (2007) South-South Migration and Remittances. World Bank Working Paper No. 102.

³⁶ Source: World Bank, Migration and Development Brief 22, April 2014, p. 8.

Based upon this context it is argued that reducing such fees should be a priority in the global remittances agenda. It is recommended that remittance costs can be reduced by encouraging competition in the remittance market through the following mechanisms:

- By encouraging banks, microfinance institutions, credit unions, and post office saving banks to offer remittance services;
- By sharing existing payment platforms and networks;
- And by avoiding exclusive partnership arrangements between major money transfer operators and post office networks.

5 Remittance and Financial Investment

Remittances contribute to a more favourable balance of payments position in sending countries and offers a critical source of financial investment. Remittances have outstripped key exports sectors and even tourism earnings in several territories. Due to its sheer volume, stability and anti-cyclical nature remittances have become a key element in the finance area for example, through improving the credit worthiness of recipient country's sovereign credit rating, thereby lowering borrowing costs and lengthening debt maturity. For example, the joint World Bank-IMF low-income country Debt Sustainability Framework includes a country's remittances when assessing a country's capacity to repay debt and ability to undertake non-concessional borrowing.³⁷

An important innovation in international finance is that the future flow of remittances can be used as collateral to secure foreign finances by countries with high remittance receipts.³⁸ Remittances are one of a variety of future receivables that can be securitized. Countries are able to securitize export earnings from oil, metals and minerals; airline tickets; credit card vouchers; international phone calls; oil and gas royalties; and tax revenue. This area of financing is considered to be of enormous potential for developing countries. For Sub-Saharan Africa it is estimated that remittances of US\$31 billion can be used to securitize \$4 billion. Tapping into this source of finance however requires that countries put in place adequate securitization laws. For example, the African Export-Import Bank (Afreximbank) arranged for Ghana to borrow \$40 million in favor of a development bank using Western Union remittance receivables. Similarly, the Afreximbank of Nigeria was able to access a loan of \$50 million by securitizing remittances through Moneygram.³⁹

It is critical to note that remittances are also used to fund small businesses and so the issue of entrepreneurship needs to be considered when talking about finance and investment. Moreover, the diasporic economy and market can be considered as strategic resources in that firms that are able to tap into these markets are able to transcend the limitations of small size, which is a structural constraint in many developing economies. In this sense the diasporic economy offers a bridge into wider markets thus incentivizing investment by entrepreneurs. This is often achievable because diasporic entrepreneurs tend to have a network base (e.g. hub-to-hub ties) that spans both the sending and receiving countries and as such are often able to overcome the hurdles of doing business or trade between the two jurisdictions. The benefits of such networking tends to be pronounced where the business, trade and financing institutions are weak and hence the barriers to running a successful business are higher. The successful diasporic entrepreneurs therefore act as institutional influencers in that they are able to transform the investment climate in the home country.⁴⁰ From this standpoint finan-

³⁷ See World Bank, Migration and Development Brief 24, April 13, 2015.

³⁸ Suhas Ketkar and Dilip Ratha "Diaspora Bonds: Tapping The Diaspora During Difficult Times" Journal of International Commerce, Economics and Policy Vol. 1, No. 2 (2010) 251–263.

³⁹ Abele Shimeles, "Diaspora Bonds and Securitization of Remittances for Africa's Development" Africa Economic Brief, Vol:1:7 (2010).

⁴⁰ Kuznetsov, Y ed. Diaspora Networks and the International Migration of Skills: How Countries Can Draw on Their Talent Abroad. The International Bank for Reconstruction and Development: World Bank Publications, 2006.

cial remittances along with social remittances (i.e. the flow of ideas, skills, social capital and networks) are key aspects of the transnational relationship that diasporas have with their countries of emigration.⁴¹

Diaspora Savings and Bonds

The following provides data on diaspora stocks, remittances, income and savings (see Table 1). A key area of potential investment funds for LDCs is from diaspora savings which is a component of diaspora income. Diaspora income for developing regions totals \$2,484 billion. Figure 2 shows that diaspora income is significant for each of the developing country regions with Latin American and the Caribbean (\$645 billion) topping the list followed by the East Asia and the Pacific (\$579 bn), Europe and Central Asia (\$402bn), South Asia (\$402bn), Middle East and North Africa (\$275bn) and Sub-Saharan Africa (\$181bn). Diaspora savings for the developing world amounts to US\$497 billion in 2013 compared to remittances of \$418 billion. The estimated diaspora savings for the regions are ranked in the same order as the diaspora income.

Table 1:

Remittances, Diaspora Income/Savings for Developing Regions, 2013

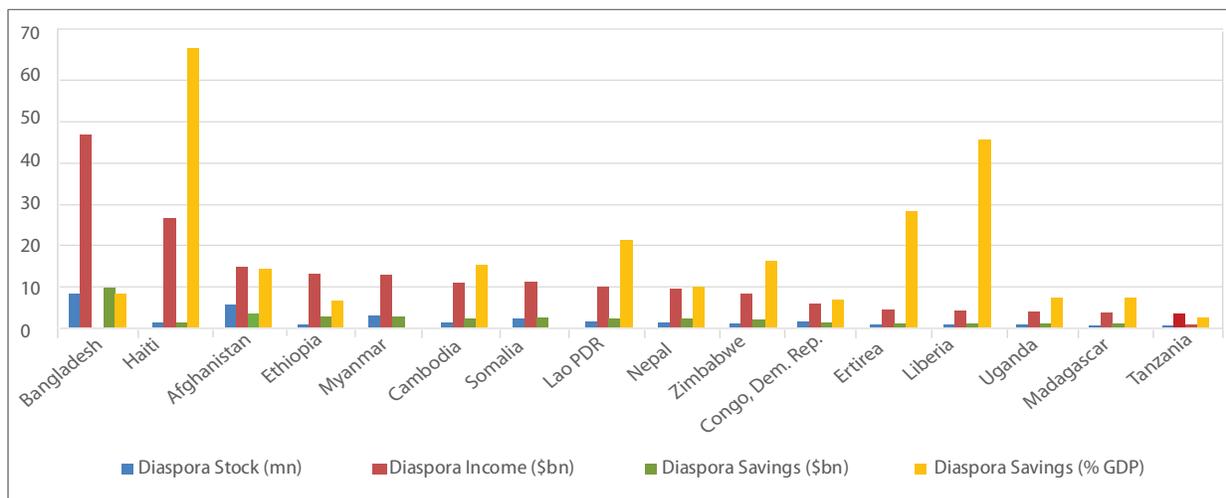
Regions	Diaspora Stock (millions)	Remittances (\$ billion)	Diaspora Income (\$ billion)	Diaspora Savings (\$ billion)
East Asia and Pacific	31	113	579	116
Europe and Central Asia	32	52	402	80
Latin America and Caribbean	34	61	645	129
Middle-East and North Africa	24	49	275	55
South Asia	38	111	402	80
Sub-Saharan Africa	23	32	181	36
All Developing Countries	182	418	2,484	497

Source: World Bank, Migration and Development Brief 24, April 13, 2015.

The potential impact of diaspora savings and income varies for the across LDCs. Figure 6 provides details for a select number of LDCs. The countries that have the highest potential source of diaspora income and savings are Bangladesh, Haiti, Afghanistan, Ethiopia and Myanmar. When diaspora savings are compared with GDP it shows that the top five countries are Haiti (65.4%), Liberia (44%), Eritrea (27.2%), Lao PDR (20.2%) and Cambodia (14.5%). This suggests that these economies have potentially large diaspora economic flows relative to the size of their economies.

⁴¹ Newland, K. and Tanaka, H. (2010). Mobilizing diaspora entrepreneurship for development. Washington, DC: Migration Policy Institute. Retrieved from <http://www.migrationpolicy.org/pubs/diasporas-entrepreneurship.pdf>

Figure 6
Estimated annual diaspora savings and incomes, select LDCs, 2012



Source: Supriyo De, Dilip Ratha, and Seyed Reza Yousefi (2014) A Note on International Migrants' Savings and Incomes.

There is also significant potential for developing countries to utilize diaspora bonds, a long-term financing instrument issued by a homeland government, as a mechanism to attract some of this savings for in-country investment.⁴² The governments of Israel and India have pioneered in this area and have raised over \$40 billion between them by tapping into the wealth of their diasporic communities for a wide array of projects and initiatives. Middle-income countries such as Sri Lanka, Kenya and Ghana have issued diaspora bonds with varying degrees of success.

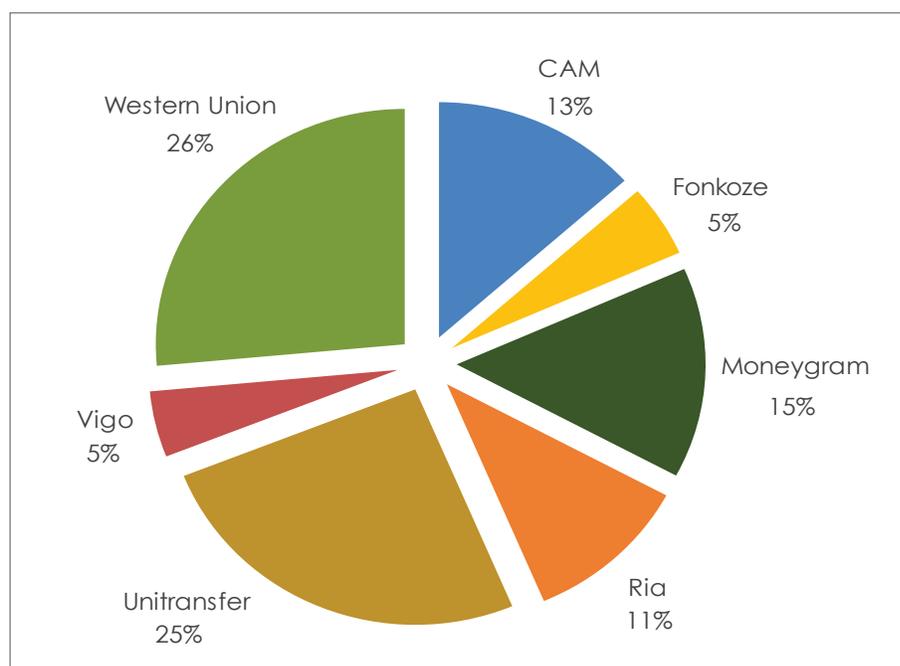
6 Remittances and Financial Innovation

The transfer cost of remittances is also impacted by the market structure in the receiving country. In this regard, the case of Haiti provides an interesting assessment of market changes. Although Western Union, MoneyGram and Ria are the dominant RSPs in Haiti there has been increased competition with the rise of regional and local firms. While data on market share is difficult to access what is available is the number of payout points by firm. Figure 7 provides a breakdown of the shares of payment points for the RSPs serving Haiti. In Haiti the big RSPs (Western Union, MoneyGram and Ria) account for a combined 52% of the outlets (see Figure 7).⁴³ Two Haitian based providers (Unitransfer 25%, Fonkoze 5%) are next in terms of share of payment points. Unitransfer is a subsidiary of Unibank S.A., one of the leading commercial banks in Haiti. Fonkoze is the largest microfinance institution in Haiti with 46 branches located throughout the country whose mandate is to service the poor and rural communities. Caribbean Air Mail (CAM) has 13% of the outlets. It is a money transfer company licensed in the US and operating in Haiti since 1984. Vigo is a US based money transfer company which also has a strategic alliance with Western Union.

⁴² Anupam Chander, "Diaspora Bonds" *New York University Law Review*: 76(4): 37-53.

⁴³ For background data see Manuel Orozco (2012) *The Market for Money Transfers: Ranking of Remittance Service Providers in Latin America and the Caribbean*. Inter-American Dialogue, Washington DC.

Figure 7
Haiti, share of remittance payment points



Source: Orozco 2012 *The Market for Money Transfers: Ranking of Remittance Service Providers in Latin America and the Caribbean*. Inter-American Dialogue, Washington DC.

Another interesting case in terms of market structure comes from the small island developing state of Tonga. Tonga, with remittance to GDP shares of over thirty percent is one of the most reliant countries in the world. One of the top RSPs is the Tongan-owned firm Melie Mei Langi that was first established in 2002 in Australia to service overseas Tongans. It has grown to offer services in several key cities in Australia where the Tongan diaspora are to be found. The company also has 11 branches in Tonga, 5 in the US and one each in Fiji, American Samoa, New Zealand and Hawaii. Melie-Mei-Langi has innovated and entered the supermarket business and meat importing business to Tonga providing its overseas clients with the option to send remittances or to purchase groceries for pick-up in Tonga. The latter option has been estimated to be worth as much as forty percent of total remittances going to Tonga.⁴⁴

A third example is that of Sonali Exchange Co. Inc. (SECI) which is an international money transfer operator and subsidiary of Sonali Bank, Ltd. the largest commercial bank in Bangladesh. Sonali Bank has a network of around 1200 branches, 26,000 employees and overseas offices in USA (10 branches in 5 states), UK (6 branches in London (2), Birmingham, Oldham, Luton, Bradford), India and the Middle East with a vast number of foreign correspondents around the world. Sonali Bank also offers a range of specialty services such as Hajj savings accounts. Sonali Bank (UK) Ltd is incorporated in the UK and 51% of the shares are held by the Bangladesh Government and 49% by Sonali Bank Ltd, Bangladesh. Sonali Bank (UK) Ltd was established to:

- To help the UK Bangladesh community involved with the development of the Bangladesh economy through the remittance of foreign exchange and Trade finance.
- Provide niche banking service to the UK Bangladeshi community.
- Provide access to the London financial market for the banking and corporate communities in Bangladesh.

⁴⁴ <http://www.sendmoneypacific.org/about-smp/transfer-operator-information/details/130/melie-mei-langi-money-transfer.html>

Mobile Money

A key recommendation that has emerged is that of mobile money and mobile payments which has the potential to further reduce transaction costs and benefit the unbanked populations that predominate in LDCs. This is a key area for innovation in the remittance business which has a strong potential impact in LDCs. An example of this in Sub-Saharan Africa is the operations of French telecom operator Orange which has pioneered in the South-South remittance market with the launch of an international money transfer service that allows customers to send funds between Mali, Senegal, and Cote D'Ivoire using only their mobile phones. These three neighboring West African countries have a long history of intraregional migration, and share a common language and currency and so were good candidates to pilot the first international, direct mobile-to-mobile transfer system in 2013.⁴⁵

At the time of the launch Orange's competitors offered "mobile-to-bank account" and/or "mobile-to-agent" payment models. In mid-2016 Orange expanded the mobile-to-mobile service to its customers in Metropolitan France enabling them to transfer money to other customers in Mali, Senegal, and Cote D'Ivoire as well as within Metropolitan France. The rationale for the rollout of the mobile-to-mobile service in West Africa first was related to the fact remittance flows from the Cote D'Ivoire to Mali were double that from France to Mali in 2012.

Another example of a mobile money operator that has had a big impact on the remittance market and the wider financial sector is M-Pesa, a mobile money transfer system which was first launched in March 2007 by the Kenyan mobile network operator, Safaricom, which is partly owned by Vodafone Group plc, a British multinational telecommunications company headquartered in London. M-Pesa was first designed as a mobile solution targeted at microfinance borrowers but quickly shifted towards the wider consumer market for local money transfers and has grown rapidly to have 17 million subscribers by 2011. M-Pesa grew at a rapid rate by offering money transfer solutions to a largely un-banked population. M-Pesa allows customers to deposit and withdraw money, transfer money, pay bills, and purchase airtime.

Safaricom has established a number of partnership deals with foreign firms to target the Kenyan diaspora and the remittances market utilizing the M-Pesa platform which offers wide national coverage and easy access to most Kenyans. Safaricom signed a partnership deal with Skrill, a UK-based online payments and cash remittances company that was launched in 2001 has a capacity to handle online payments and cash remittances in 41 currencies while also supporting credit and debit card transactions. The arrangement allows users wherever they are in the world to send money directly to the M-Pesa mobile wallet of a friend or family member in Kenya.

Safaricom has forged deals for direct cash transfers to M-Pesa with other remittance service providers such as WorldRemit, Equity Bank's EquityDirect and with MTOs like Western Union and MoneyGram. The deal with MoneyGram will allow access to M-Pesa from over 200 countries. Safaricom has also signed partnership deals with Australia-based mHITS, British firm SkyForex, PostFinance of Switzerland, London-based provider Xendpay and Mapex.

Remittances and Financial Inclusion

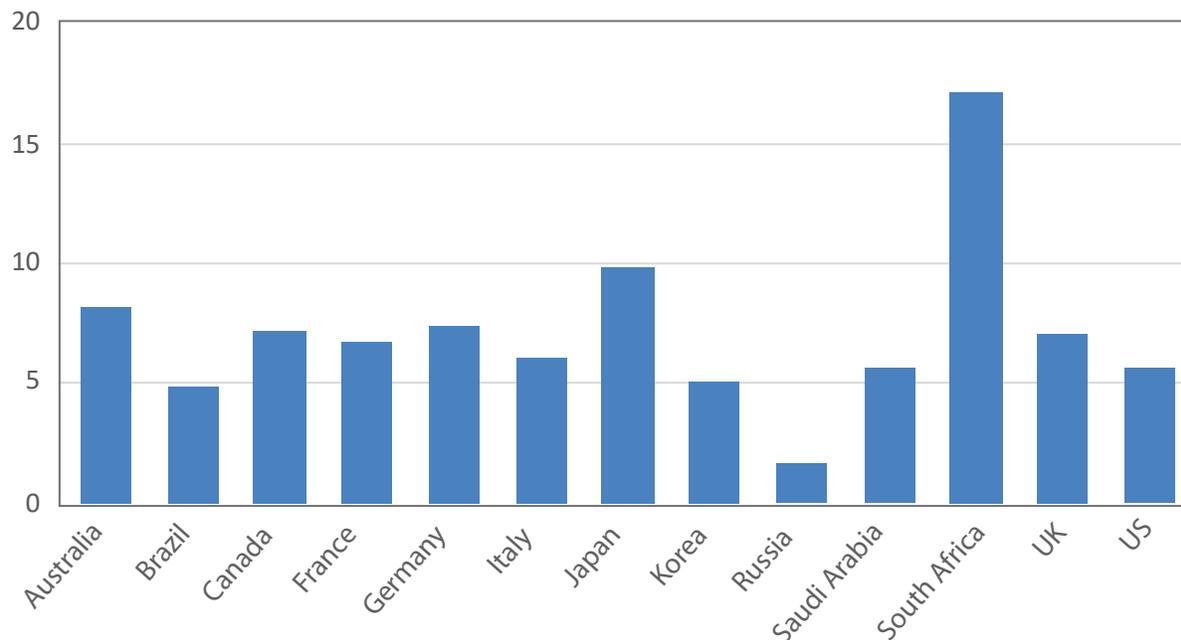
One of the key recommendations from the SDGs on migration is the reduction of remitting costs. Global institutions like the World Bank also call for the facilitation of increased price competition among remittance agencies. Transaction costs have successfully been driven down in most markets but some markets have sustained high fees. Transaction costs have successfully been driven down from a global average cost of sending US\$200 of approximately 9.8 percent in 2009 to 7.13 percent in the first quarter of 2018. South Asia has the lowest transaction cost of 5.21 percent compared with the highest cost of 9.44 percent in Sub-Saharan Africa. The significance of this issue is such that if remitting costs were reduced by 5 percent points it would result in savings of \$16 billion.⁴⁶

⁴⁵ See <https://www.orange.com/en/Press-Room/press-releases/press-releases-2016/Orange-launches-Orange-Money-in-France-to-allow-money-transfers-to-three-countries-in-Africa-and-within-mainland-France>

⁴⁶ Remittance Prices Worldwide (2016). An analysis of trends in the average total cost of migrant remittance services. International Finance Corporation.

The cost of remitting is impacted by the market conditions in the source country. There is significant variation in the average cost of remitting among, for example, the G20 countries which account for a large share of the North-South remittances. As Figure 8 illustrates, the country with the lowest remitting costs is Russia with an average cost of 1.64 percent. The Russia rate is one-third of the next lowest cost, Brazil at 4.93 percent. At the other end of the scale is the extremely high cost of Japan at 9.82 percent and South Africa which at 17.13 percent is almost three times the average cost of remitting from G20 countries (6.63 percent).

Figure 8
Average Cost of Remitting US\$ 200 from G20 Countries



Source: World Bank, Remittance Prices Worldwide, <https://remittanceprices.worldbank.org/en>, extracted on September 03, 2018.

The case of South Africa is quite significant because it is the largest source of South-South or intra-Africa remittances. There are as much as 3.2 million migrants working in South Africa (of which 2 million are from Zimbabwe) that remit close to \$2 billion mostly to countries in the Southern African Development Community (SADC) region. Informal remittances are also very large and a key concern from a development standpoint.

The key mechanism to achieve lower transaction costs is to facilitate increased price competition among remittance service providers and money transfer operators. There obtains a wide spread in costs between various remitting agencies. Banks are the most expensive service providers with an average transaction cost of 10.57 percent. The next most expensive RSP is the post office at 7.44 percent, then the money transfer operators at 6.27 percent. The cheapest RSPs are the mobile operators at a mere 3.06 percent.

Given the wide differential on the costs of the various RSPs it is recommended more countries consider facilitate mobile money operators. The key challenge here often is regulatory given the demands of Anti-Money Laundering/Combating the Financing of Terrorism protocols. Banks and other financial institutions have been impacted by greater scrutiny with the result that a number of banks have stepped away from money transfer operations on account of de-risking strategies. The problem of expanding regulatory oversight is also evident in the problem of corresponding banking.⁴⁷

⁴⁷ See Alleyne, Trevor et al (2017) "Loss of Correspondent Banking Relationships in the Caribbean: Trends, Impact, and Policy

Banking the Unbanked

A key concern that has emerged in the debate on remittances and the financial impact of the diasporic economy has been the issue of “banking the unbanked”. This is considered to be a critical issue for the LNOB discourse as access to financial services is viewed as important for social and economic mobility. It is estimated that close to half of the world’s population is unbanked and the regions with the highest unbanked adult populations are in LDCs regions. Sub-Saharan Africa has the largest unbanked adult population with 80 percent without access to financial services. The other regions with large unbanked populations are the Middle East (67%), Latin America (65%), East Asia/Southeast Asia (59%), South Asia (58%). For comparison it is important to note that the high-income economies in the OECD have an unbanked population of only 8 percent.⁴⁸ Access to banking (e.g. savings and credit), insurance and other financial services are a key resource to improve the livelihood of poor households.

Large shares of remittance recipients operate outside of the traditional banking system and so are a key targets for “banking the unbanked”. Banks and microfinance institutions have been using money transfer services to attract new clients. This provides migrant remitters as well as recipient families with an additional option for transferring money not only for consumption but also for investment purposes.

8 Conclusion

The paper provides an analysis of the migration, diaspora and development nexus and its implications for the achievement of the SDGs. From a development standpoint this paper argues that migration and the growth of diasporas need to be viewed beyond the narrow confines of rising nationalist sentiments. The paper suggests that there are significant opportunities for LDCs in the areas of investment, innovation and inclusion with the growth of the diasporic economy and calls for a strategic approach to improve the development potential for sending or labour-exporting countries.

The paper also highlights the huge potential embedded in diaspora savings and financial instruments like diaspora bonds. There are also financial mechanisms that allow for the securitization of future flows of remittances for balance of payment coverage. This illustrates that there are a wider range of stakeholders that can benefit from the rise of the diasporic economy: from migrants, to diasporic entrepreneurs and sending country governments. As such LDCs should be encouraged to further strategize on the financialization of remittances and other diasporic flows.

The next order of business would be to strengthen a wide range of initiatives targeted at reducing the transaction cost of remittances and “banking the unbanked.” The key point is that the remittance money market is a conduit not only to poverty reduction but it is in effect the lubricant that is opening access to the banking services, financial literacy and the digital economy through mobile money. In this expanding universe of trade in services there is also much scope for deepening the involvement of domestic companies from LDCs in the remittance business, which is largely dominated by large transnational firms.

The case studies of remittance service providers from Haiti, Tonga and Bangladesh give some insight into the diversity of opportunities and the key issues impacting on the growth of remittance services providers and the trade, entrepreneurship and investment linkages from a developing country standpoint. The case studies illustrate that the remittance or money transfer business is dynamic, competitive and increasingly digital. There has been growth of domestic firms that have expanded market share over time. This has occurred in a context of declining transaction fees and rapid technological change that is disrupting traditional bricks and mortar business models.

⁴⁸ <https://www.mckinsey.com/industries/financial-services/our-insights/counting-the-worlds-unbanked>