Africa e Mediterraneo

ISSN: 1121-8495

Sana F.K. Jatta, "Migrants' Remittances: a Critical Lifeline for Millions of Families in Africa and a Security-net for the Ones Willing to Return", in «Africa e Mediterraneo», vol. 26, n. 86, 2017, pp. 41-47

DOI: 10.53249/aem.2017.86.08

Africa e Mediterraneo

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n. 86 | Ritornare

Pubbl. Semestrale n. 1/17 (86) luglio 2017 - Edizioni Lai-momo, Bologna- Poste It. Spa, sped. in abb. post. D.L. 353/2003
(conv. in L. 27/02/2004 n. 46) art. 1, c. 1 DCB-BO

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Africa e Mediterraneo
Semestrale di Lai-momo cooperativa sociale
Registrazione al Tribunale di Bologna
n. 6448 del 6/6/1995

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Progetto grafico e impaginazione
Giovanni Zati

Editore
Edizioni Lai-momo
Via Gamberi 4, 40037
Sasso Marconi - Bologna
www.laimomo.it

Finito di stampare
il 31 luglio 2017 presso
MIG - Modena Industrie Grafiche
Rastignano - Bologna

Africa e Mediterraneo è una pubblicazione che fa uso di *peer review*

In copertina
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Indice

n.86

Editoriale

Dossier: Ritornare


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Migrants' Remittances: a Critical Lifeline for Millions of Families in Africa and a Security-net for the Ones Willing to Return

Despite the huge contribution of migrants to the development of their countries of origin, the international community has only recently recognised the importance of remittances and started to support them with investments and initiatives.

by Sana F.K. Jatta

In this page and in the following ones: Clients receive remittances at the post office in Benin thanks to IFAD's African Postal Financial Services Initiative (APFSI).
© IFAD/Hans Boon

Over the past 15 years remittances have emerged as a unique contribution to the well-being and development of migrants' communities of origin. With over US$445 billion sent by migrant workers to their home in low and middle income countries in 2016, remittances represent a vital flow of resources that can change lives and potentially fuel development.[1]

Remittances are defined as cross-border, person-to-person payments of relatively low value. Migrants send on average US$200, typically on a monthly basis. Seemingly small, this amount is often 60 per cent or more of their family's income back home. These flows constitute a critical lifeline for millions of individual households, helping migrants' families raise their living standards above subsistence and vulnerability levels. These funds are vital in lifting millions of families out of poverty, contributing to income-generating activities and thus overcoming financial exclusion, and, in some cases, providing the basis for a potential return home.

In 2016, it was estimated that the remittances flow to and within the African continent amounted to more than US$65 billion.[2] Some of this amount was sent from other African nations, and for the largest part from Europe, North America and the Middle East. Despite a small decrease from 2015 – due to factors such as slow economic growth in remittance-sending countries, a decline in commodity prices and diversion of remittances to informal channels due to exchange rate regimes – these flows to and within Africa are expected to grow to as much as US$80 billion in 2020.[3] The growth can be correlated to the continued migration within Africa and from Africa to Europe and other nations, economic growth, as well as the gradual substitution of unregistered or informal flows into recorded channels.

Sent by more than 45 million African migrants living outside their native country,[4] these remittances reached more than 200 million African migrant family members, of whom more than 40 per cent live in rural communities.[5]

Remittances make a significant economic impact on national economies in Africa. In 6 African countries remittances equal to over 10 per cent of the national GDP (Cabo Verde, Comoros, the Gambia, Lesotho, Liberia, Senegal), while in an additional 15 African countries remittances account for more than 5 per cent of GDP. Remittances also finance a substantial share of imports in some of the larger countries; for example, in 2014 remittances financed around one-fourth of imports in Nigeria and about one-fifth in Senegal. Furthermore, in the majority of African countries, the flow of migrant remittances is larger than the flows of Foreign Direct Investment (FDI) and is over three times Overseas Development Assistance (ODA).[6]

In terms of costs, the average cost of sending money to and within Africa was 9.8 per cent in the first quarter of 2017, the highest average cost for a region worldwide, though this represents a drop from 11.4 per cent in 2014 (the overall world average is 7.45 per cent).[6] Costs vary substantially across the region, ranging from 4-5 per cent to over 20 percent, such as in many corridors from South Africa and Nigeria. Nearly all of the world's highest cost corridors are currently to or within Africa, and these numbers imply that migrants spent more than US$6 billion to send money to their families. These

costs do not include costs incurred by the migrant families, in particular in rural areas, who need to spend a considerable amount of time and travel to pick up the remittances.

This unique source of income allows receiving households in Africa and worldwide to face unpredictable problems, to save residually from amounts received in good months, to effect monthly loan repayments, or to support investment in pro-

ductive assets. It is estimated that, over time, between 20 to 30 per cent of the remittances received is used for savings and investment, increasing productivity and generating income, and thus acting as an engine for local development.[8]

Besides sending money home for the immediate relief of their families and loved ones, migrants are sending home remittances also in order to satisfy their long-term goals, creating the conditions on the spot for the generation of sustainable income for their families, and enabling them eventually to prepare the basis for a possible return home with an improved socio-economic status. Migrant workers - especially those who have been living in a hosting country for a relatively long period, and with entrepreneurial profiles - are currently able and willing to invest their savings in their countries of origin.

Le rimesse dei migranti: un'ancora di salvezza per le famiglie d'origine

Negli ultimi 15 anni è emerso il valore delle rimesse dei migranti come contributo allo sviluppo e al benessere dei Paesi di origine. Si parla di cifre di grande impatto e sostegno per le comunità di provenienza: nel 2016, più di 445 miliardi di dollari sono stati inviati dai migranti alle loro famiglie nei Paesi a basso e medio reddito.
Le rimesse sono definite come pagamenti transnazionali, da persona a persona, di importo relativamente basso (in media circa 200 dollari al mese). Mentre questa cifra in genere rappresenta circa il 15% del reddito del migrante, spesso equivale al 50% o più del reddito della famiglia che la riceve nel Paese d'origine, e costituisce un'ancora di salvezza per milioni di persone, contribuendo alle spese per la salute, l'educazione, la casa. In alcuni casi inoltre, le rimesse sostengono la creazione o il consolidamento di micro, piccole e medie imprese.
È stato stimato, infatti, che tra il 20 e il 30% delle rimesse viene risparmiato o investito, generando in questo modo profitto e sviluppo. Al tempo stesso, attraverso rimesse e investimenti, i migranti incentivano la creazione di posti di lavoro nei loro Paesi d'origine, prevenendo la migrazione di altre persone, e in certi casi preparano le basi per il proprio eventuale ritorno a casa. È importante considerare, infatti, che un numero sempre maggiore di migranti, dopo molti anni trascorsi nel Paese di accoglienza, esprime la volontà di tornare a casa, nel caso in cui ci siano le condizioni per una vita dignitosa e un ritorno con un migliore status socio-economico.
Mandare denaro a casa ha però un costo ancora molto alto, che varia da Paese a Paese, e le cifre più alte riguardano i trasferimenti per e all'interno dell'Africa.
Nonostante questo scenario significativo, solo recentemente la comunità internazionale ha compreso il potenziale dei migranti nel contribuire allo sviluppo dei Paesi di origine, e ha iniziato a valorizzare e sostenere le rimesse. Si sta ora discutendo a livello globale il cosiddetto "Global Compact for Save, Orderly and Regular Migration", e l'IFAD (il Fondo internazionale delle Nazioni Unite per lo sviluppo agricolo) dal 2007 promuove una serie di eventi, come il *Global Forum on Remittances, Investment and Development* (GFRID), che ogni due anni raduna esperti di ogni settore, pubblico e privato e della società civile, per discutere e condividere buone pratiche e innovazioni del settore. Fondi *ad hoc* sono stati stanziati per sostenere gli investimenti dei migranti nei loro Paesi d'origine.
Un uso più produttivo delle rimesse potrebbe quindi creare un circolo virtuoso, portando a un migliore investimento nelle opportunità economiche locali. Dovrebbero essere attuati interventi specifici e scelte politiche mirate, sulla base di una migliore comprensione dei bisogni dei migranti e delle comunità di provenienza.

These investments help create local jobs so that others do not need to migrate. Beyond the simple transfer of remittances, migrant direct investments can contribute to creating or consolidating micro, small and medium enterprises (MSMEs) managed by remittance recipients or by migrant returnees.
Furthermore, migrants also donate funds to their local communities. Migrant philanthropy can play an important role in helping communities supplement their locally available social services through the building of schools, community centres, medical facilities, religious buildings and infrastructure. These investments inherently have a long-term impact on the community.
Despite the long-term recognition of migrants as development actors, the international community has only recently fully realized and understood the potential of migrants to contribute to the development of their countries of origin. It is only since the G8 summit in L'Aquila in 2009 that the most developed countries in the world committed to reduce the costs of remittances worldwide, which was echoed by the G20 and recently integrated as a defined target of the Sustainable Development Goals, with the objective of reducing the cost to 3 per cent by 2030.
Last year the United Nations included the topic of facilitation of interaction between diasporas and their countries of origin as one of the priorities of the New York Declaration on Refugees and Migrants, and only one year earlier, in 2015, the Addis Ababa Action Agenda (AAAA) recognized the contribution of migration to sustainable development. Nowadays the international community is involved in the negotiations of the Global Compact for Safe, Orderly and Regular Migration, 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.
To bring together representatives from public, private and civil society organizations, towards achieving long-term development goals, IFAD has been hosting a series of events since 2007. The Global Forum on Remittances, Investment and Development (GFRID), organized every two years, provides regulators, private companies and civil society with an opportunity to identify opportunities that are pro-poor, pro-profit and can maximize the development impact of remittances and other migrant contributions to local economies.
The 2017 edition of this Global Forum took place at the United Nations headquarters on 15-16 and its recommendations were incorporated in the consultation of the Global Compact for Migration. Together, it is expected that Member States around the globe will create an environment where migration will become more of a choice rather than a necessity.
In support of this need for global awareness, in 2015 IFAD proclaimed the International Day of Family Remittances (IDFR)[9] and is now in the process of bringing it to the United Nations General Assembly for formal endorsement. This day was created with the purpose of not only raising global awareness about the contribution of remittances to the well-being of migrant families and communities of origin but also on ways for governments and private sector stakeholders to capitalize on the potential of remittances to help meet the economic, social and environmental challenges confronting developing countries.

Channeling migrants' investments in their countries of origins

Following this growing general consensus, in recent years many programmes have been set up in Africa and worldwide by various governments and international organizations to maximize the productive use of remittances, and to support migrants who intend to invest back home.

Among others, IFAD has put in place in Africa various typologies of financial vehicles aiming at channeling migrants' investments in their countries of origins. These funding mechanisms aim at the creation of new economic opportunities, the set up or expansion of enterprises, and fostering employment generating activities, particularly in rural areas. In Somalia for instance, IFAD has created an innovative mechanism to allow the Somali diaspora to invest in the home country, promoting pro-poor investment in local agribusiness initiatives through the Somali Agrifood Fund (SAF),[10] which provides seed capital to match diaspora and entrepreneur investments. In Mali, Morocco and Senegal, IFAD is implementing several programmes engaging migrant communities in Europe to support their investment in innovative, profitable and remunerated rural on- and off-farm initiatives in their countries of origin, hence leveraging youth entrepreneurship and employment opportunities, and eventually, providing the migrants with the means for their potential return.

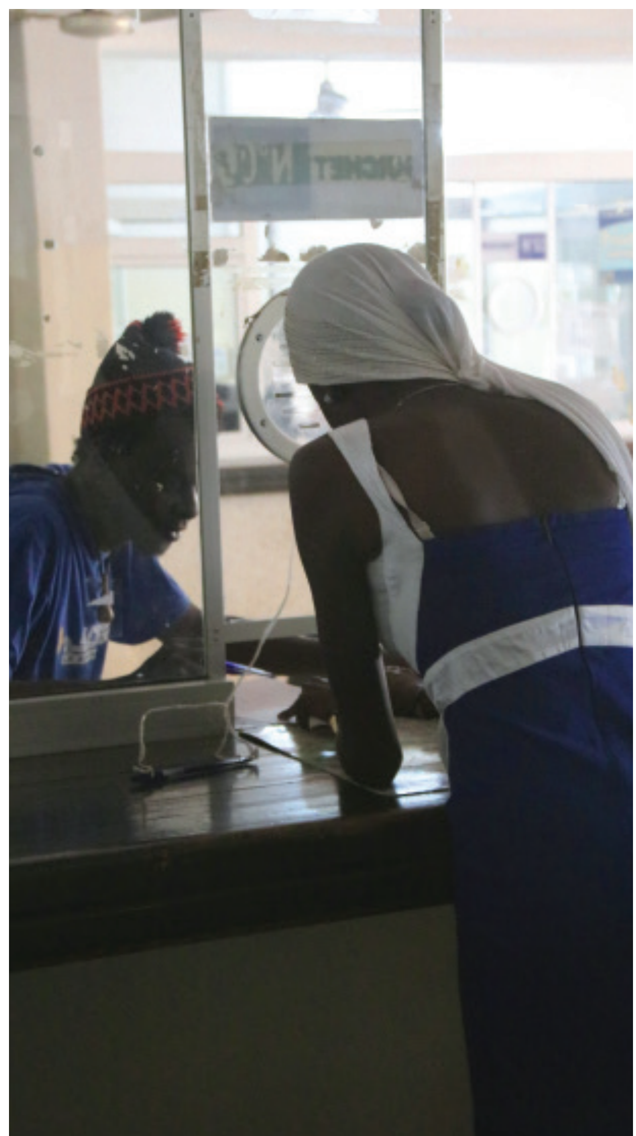
When remittances are received through regulated financial intermediaries, savings can be reinvested in the local community, to increase productive investment and raise productivity and income.

The common denominator of these programmes is the emphasis on the importance of financial inclusion. When remittances are received through regulated financial intermediaries, savings can be reinvested in the local community, to increase productive investment and raise productivity and income. They can also act as an engine for local development and as a buffer against instability. Remittance-receiving families are more likely to save, thus mitigating unforeseen expense risks, and the recurrent remittance flow can provide a transactional track record that can be leveraged to demonstrate creditworthiness. In Benin, Ghana, Madagascar and Senegal, for example, IFAD is working with national postal operators, supporting and enabling post offices to offer remittances, and allowing their customers to access a broader range of financial services.[11]

However, without access to such financial services, savings are not deposited, which of course has the knock-on effect that they cannot be lent out for reinvestment in the local economy. At the same time, individuals are without the interest income they would have received on deposits, and without participation in the financial system they also cannot build up a credit history, establishing creditworthiness being a major issue for rural people and businesses. In many communities, people are only able to save informally (through the purchase of land or durable goods, or money saved "under the mattress"); and they must rely on relatives or local lenders for borrowing, typically with severe limitations in terms of amounts, availability and costs.

Furthermore, storing assets in goods or land also creates vulnerability where there is no financial literacy and access to insurance is not provided.

Therefore, governments, the development community, the private sector (including among others full-service banks, microfinance institutions, postal networks, and mobile phone companies) and civil society have the dual challenge of expanding access to financial services for the financially excluded and of broadening the range of financial products offered to remittance senders and recipients. Given the potential impact that remittances can have on development and the direct link to financial inclu-



A group of women attending financial literacy trainings in Uganda.
© IFAD/FINCA International

sion, it is incumbent on governments and the private sector to scale up successful policies and models.
Despite the clear positive benefit for development, the economic impact of remittances has also been viewed with caution by some. As is the case with exports, extremely large volumes of remittances tend to increase the value of a country's currency, which in turn might render the country's products and services more expensive on world markets. The fact is often also cited that remittances tend to create inequality in the communities of origin between remittance receivers and non-receivers, with the risk that this will be a motivating factor for migration in the families that do not receive them. While this is often true, it also needs to be pointed out that in situations like these the number of poorer people are reduced. The possible downside of remittances has to be put in perspective with the positive effects of remittance at the community level, including higher spending and investment, and the impact on local economies.
Furthermore, these benefits would be enhanced when more opportunities to use these funds are provided. Besides being an infusion of cash into local commerce, remittances can provide opportunities for investment and creation of employment. Interventions can help develop financial infrastructure and financial intermediation. While the extra demand for products and services helps develop local markets and supports businesses, expanding financial infrastructure provides access to services that are often not available in more remote urban or rural areas. Remittances provide regular inflows into household budgets that are subject to income volatility and seasonality in rural areas, and they are reliable and timely in times of crisis. Receiving households that face unpredictable problems can amass savings from amounts received in good months, effect monthly loan repayments, or support investment in productive assets. It is estimated that, over time, between 20 to 30 per cent of the remittances received is used for savings and investment.
Thanks to the strong link between diaspora and their home communities, and with their sound understanding of local culture, conditions and risks, migrant investors are more sensitive to opportunities back home, and are more willing to invest and capitalize on business opportunities than other investors. There are many opportunities for potential migrant investors and entrepreneurs willing to develop specific business opportunities and contribute to the economic development of their countries of origin.
Furthermore, an increasing number of migrants, after many years spent away, indicate the willingness to return home if the conditions were in place for a decent life. A more productive use of remittances can create a virtuous cycle, with greater financial access leading to greater ability to invest in local economies.
In recent years, new communication technologies have brought migrants closer to their families in their countries of origin. Often the way remittances are to be used is decided together, as well as savings plans and possible investments. The African payments landscape has begun to change significantly in line with evolving payment needs, product, process and technical innovations, as well as other structural developments. Communications and digital financial services, the expansion of the networks of service delivery/customer service points, and the interoperability of the various payment services and financial services providers have contributed to bring financial services closer to where people live, increased financial inclusion and offered the opportunity for longer-term financial plans, including joint investments in the countries and communities of origin. This new scenario in which migrants abroad and their families back home are increasingly interconnected, has

also resulted in an increasing number of programmes that link the remittances directly with progammes for potential return. However, investments and return plans often require not only financial but also non-financial support in order to reach long-term sustainability.
A core set of interventions can apply both in the countries of origin or in host countries. In both cases, financial literacy programmes are needed that increase migrant capacity to choose the best-suited financial service among available options. Financial education programmes directed to migrant workers in the country of origin during pre-departure orientation seminars have had a positive effect on saving patterns. These programmes equip migrants with basic knowledge to help them understand how best to manage their funds while abroad. Thus, financial education must remain a central pillar of every project dealing with the provision of financial services and supporting investments for migrant workers and their families.
Whether through remittances, savings or investments, migrants possess a powerful set of instruments to change their own lives and the lives of those back home, eventually creating the conditions for their possible return.
Through a better understanding of the needs of migrants and their families back home, programmes and policy changes can be undertaken so that individuals, both in origin and destination countries, can be brought into the financial system to achieve their personal economic goals while also contributing to the overall development of their countries of origin—and possibly laying the foundations for return.

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