Remittances in Development Cooperation

Guidelines for practice

Published by:
Contents

Preface 03

I. Introduction 05

Practical guidelines – who are they for? 05
Definition: remittances – what are they? 06

II. Remittances in development cooperation 09

Why are remittances an issue in DC at all? 09
What are the DC principles in the debate about remittances? 12
What options does DC have for action? 14
What have we achieved so far in German DC? 17

Bibliography 20
Preface

»The day that Omar Hatib* loses his job in Germany, he calls his family in Sudan. It is the start of April. Termination came so quickly that he can hardly explain it himself. His mother is on the other end of the phone. Hatib tells her about his firm which ran out of orders, promises to go on sending money, even if it will be less than before. He senses that she does not understand him, as so often recently. How can you explain to your family in one of the poorest countries in the world how difficult it is to scratch together a bit of prosperity in Germany?«

(ZEIT ONLINE, Philip Faigle, 26.11.2009)

Many migrants are facing the same situation as Omar worldwide, also hard hit by the financial crisis. Everyone is hearing about their transfers to their family – »remittances« – and the savagely high fees on transfers, which put an unreasonable burden on migrants. In many countries, remittances have become a leading source of money in the economies and for many poor families. Public debate about this often overlooks the needs, hopes and human costs underlying the remittances. Remittances are a strategy for survival. They contribute directly to poverty reduction, but they are no guarantee of sustainable development in migrants’ countries of origin. Much depends on making the effects and potential associated with the money flows more accessible for development. These guidelines are intended to show how this can be done from a development policy perspective.

Conditions on the recipient side in particular can be created or improved for migrant remittances to deliver sustainable benefits. Microfinance products such as savings and loan products or health insurance can be linked to remittances, creating new possibilities for recipients and for the financial system generally. However, this requires migrant remittances to use the formal financial system. New technologies can reduce costs and increase access, with mobile phone companies already offering innovative payment systems to small shops, filling stations or post office branches, using mobile phones and payment networks. International money transfers by migrants still face numerous obstacles. Development policy seeks to remove these obstacles, so that migrants’ efforts are rewarded and their income can reach the places where it is needed.

These guidelines for practice were compiled on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

* The name has been changed.
I. Introduction

Practical guidelines – who are they for?

One reason for the attention paid to the issue of migration within development cooperation (DC) in recent years is the awareness of the sums that migrants send back to their countries of origin every year. According to the World Bank, these remittances totalled around USD 406 billion in 2012, more than three times as much as official development assistance. Remittances play a key role in the survival strategy of many people in emerging and developing countries, in financing health care and education, and in reducing global poverty. However, their effects can vary widely, depending on whether we are considering them at the individual, household, regional or national economy level.

These guidelines bring together experience from recent years of German and international cooperation in the field of remittances.

They aim to:
- identify the conditions for utilising the development policy potential of remittances,
- discuss the risks of economies’ dependence on remittances, and
- present openings for practical treatment of the issue in the context of DC.

They are directed towards:
- staff of the Federal Ministry for Economic Cooperation and Development (BMZ),
- staff of national institutions in partner countries of German DC,
- staff of German DC projects, and
- other donors and implementing organisations in international DC.
Definition: remittances – what are they?

The German term used to describe transfers by migrants to their families in their countries of origin is Rücküberweisungen, which strictly speaking refers to a reversal of an incorrect transfer on which e.g. the recipient, account number or bank code were wrongly entered. Thus, development policy debate in Germany has accordingly resorted to talking of a transfer of funds (Geldtransfers) or using the English term »remittances«. But what exactly are remittances?

According to the World Bank definition, remittances have three components: 1) workers’ remittances, which are transfers by migrants considered as residents, 2) compensation of employees, which includes transfers by nonresident migrants, seasonal workers and cross-border workers, and 3) migrant transfers, which usually include transfers of goods or financial assets. The German central bank (Bundesbank) presents these categories as follows in its balance of payments statistics: workers’ remittances are called Heimatüberweisungen der Gastarbeiter, literally: »transfers by guest workers to their home countries«, while compensation of employees is called Erwerbseinkommen, literally »earnings of employed persons«. The English term migrant transfers is used in German, and is defined as »payments as a result of inheritance, legacy, gift, restitution, immigration and emigration« (Zahlungen infolge Erbschaft, Vermächtnis, Schenkung, Restitution, Ein- und Auswanderung). However, the term »transfers by guest workers to their home countries« has two problems: first, not everyone sending money to families and friends abroad is a former »guest worker« and second, migrants no longer necessarily regard their country of origin as their »home country«.

Statistical documentation of all three components of remittances is complicated and ambiguous, and the available data from the national central banks (and also the World Bank) is mostly based on estimates or various kinds of calculation. To illustrate the difficulty, the following two figures show a simplified version of the documentation or estimation of workers’ remittances in Germany:

---

1 Under the three sections Income, Current Transfers and Capital Transfers.


3 The most accurate way is to ask about the amount of remittances in household surveys, but this is an extremely elaborate and relatively expensive procedure. Also, people generally are very hesitant about providing information on their income and its use. Other possibilities for collecting data are estimates, econometric modelling, reports from payment systems and combinations of these. This enormously complicates comparability of national statistics on remittances.
The first diagram shows why it is impossible to completely document document remittances in Germany. Only part of the transfers have to be reported at all, and another – a not inconsiderable part – is handled through informal channels. It is estimated that five to 20 percent of all private transfers of funds to Latin America and as much as 45 to 65 percent of all transfers to sub-Saharan Africa are handled informally.

The reasons for this are the high costs of the formal systems, which can swallow up a large part of the sums transferred, a lack of trust in the banking systems in the countries of origin, and the small number of banks there, particularly in rural regions, which complicates access to banking services for the recipients of remittances.

**Figure 1: Documenting remittances in Germany**

**Figure 2: Bundesbank estimation techniques for remittances**

---

4 The Hawala system is an informal system for transferring funds which evolved back in the early Middle Ages between traders in the Middle East. It is largely based on trust between trading partners, who also act as receiving and disbursing agents for private individuals. The system functions without a need for transfers of money between the Hawaladar (traders), as these are able to offset transactions or settle them with shipments of goods. Hundi is the Far Eastern version of this transfer system.

5 The reporting limits are a measure to facilitate smaller transfers abroad, which is entirely sensible. This risk-based approach is explained further below.
The second figure shows why workers’ remittances cannot reflect the full extent of remittances from Germany. These relate only to the unemployed migrants reported to the Federal Employment Agency and employed immigrants reported to the social security agencies. This means that transfers of funds by large parts of the population with a migrant background are not recorded, e.g. naturalised former migrants or uninsured persons. The average amount transferred per person and situation of the family can also vary so widely that calculations of averages for the individual countries could give a highly distorted picture under certain circumstances.\(^6\) Despite all these difficulties, however, the Bundesbank figures provide a first impression of the dimensions of the phenomenon. For 2009, the Bundesbank estimates workers’ remittances at EUR 2.9 billion, compensation of employees (i.e. remittances by nonresident migrants) at EUR 7.9 billion and migrant transfers at EUR 0.2 billion (source: Bundesbank, as of March 2010). Officially, the assumption is that in 2009 some EUR 11 billion in remittances left Germany for all parts of the world. This means that remittances from Germany in 2009 rose by EUR 1 billion compared to 2008, despite the global financial and economic crisis.

In this practical orientation, we are not using the term »remittances« in the sense of the balance of payments statistics. Instead, we use remittances to cover all (i.e. formal and informal) transfers of goods and money by all persons with a migrant background to their country of origin, whether these person are naturalised or not, have jobs with social security or not, or are temporarily or permanently resident in their destination country. Statistical recording of remittances is certainly an important issue, but the emphasis here is on the significance and effects of remittances for development policy.

\(^6\) Pension payments to former employed immigrants who have returned to their countries of origin are documented under another heading in the balance of payments statistics (»Current transfers«), but not aggregated by the nationality of recipients.
II. Remittances in development cooperation

Why are remittances an issue in DC at all?

»Remittances contribute to poverty reduction.«

The importance of remittances for recipients in developing countries is obvious. They flow directly to households in developing countries and help defray the cost of living. As a result, the share of households receiving remittances can be very high in some countries, around 40 percent in Nicaragua, and still 19 percent in El Salvador. Remittances also frequently represent a significant part of total household income. In the Philippines, for example, 25 to 50 percent of average household income comes from abroad. The Asian Development Bank estimates that 4.3 million people in the Philippines only remain above the poverty threshold because of remittances.

Generally, most of the remittances are used for food, e.g. 75.5 percent in Nicaragua, 79.4 percent in El Salvador and 56 percent in Bangladesh. The second and third most important items of expenditure are clothing and repairs. Education and health care are also cited as important expenditures. This means that remittances make a decisive contribution towards meeting basic needs. Unfortunately, it also means that there are generally only minimal remaining funds for saving or private investment.

At the macroeconomic level, statistically significant relationships have been reported between an increase in remittances and a decrease in poverty. For example, it is calculated that five percent of the reduction in the number of those in absolute poverty in Nepal between 1995 and 2004 was due solely to the increase in international remittances over the same period. Simulations have also shown that a ten percent increase in formal remittances leads to a poverty reduction of 3.5 percent in the economy as a whole. Not least, remittances are stable flows of resources which actually increase if the migrant’s country of origin is impacted by natural disasters, as seen for example in the devastating earthquake in Haiti at the start of 2010. To increase the cited poverty-reducing effects of remittances, transfers must be made faster, cheaper and more secure.

»Remittances finance education, health care and social protection.«

If remittances do not have to be used directly to satisfy basic needs, migrant families are able to invest these increasingly in education and health care. In the Philippines, for example, expenses for education are a regular part of the use of remittances, while in South Africa, the likelihood of school attendance rises by 30 percent for a child if the family receives remittances. Remittances are also used prudentially, to cushion and cope with crises and dangers such as natural disasters, diseases, unemployment or death in the family, contributing to social security. Remittances are accordingly used by migrants and recipients for classic development goals, where DC can assist.

»Remittances help business start-ups and job creation.«

Finally, remittances can also promote growth, although only if the economic conditions permit and if the state creates the right incentives. Consumption of local products financed by remittances can strengthen the domestic economy. Migrants are also often interested in investing their money in their country of origin, or becoming active themselves in the private sector there. In both cases they contribute to the development of the local economy and to job creation. However, they need proper consultancy and assistance, as well as access to (micro)credits, which can be made possible through DC measures.

---


Remittances strengthen the financial system and facilitate access to financial services. «10

After foreign direct investment, remittances are the largest source of finance in developing countries. They are also the fastest growing source. Between 2002 and 2012, global remittances more than tripled in size. In macroeconomic terms, remittances account for a large part of gross national income in many countries, e.g. 23 percent in Moldova and 47 percent in Tajikistan. This alone says nothing about their positive effect on development, but it does illustrate the dependence on remittances of the national economies involved. Major economic crises such as the oil crises, the Asian crisis or the current global financial and economic crisis have always involved a restriction on immigration opportunities in industrialised nations. If this leads to a reduction in income opportunities for migrants, this automatically worsens poverty in their countries of origin, and given a high degree of dependency, the effects can be disastrous. As long as the remittance streams continue, the steady flow of foreign currency offsets balance of payments deficits, enhancing international credit ratings. If remittances are transferred through formal channels, they strengthen the recipient country’s financial system. This facilitates refinancing by the banks, which in turn enables them to make more loans.

If there are cost-effective and secure transfer mechanisms, this gives large population groups their first contact with the formal financial sector. Frequently, this contact with banks gives customers access for the first time to other financial products, such as savings accounts or loans. Acquisition of basic financial education, i.e. knowledge of the existence and operation of various financial products, plays a decisive role. The transfer of funds itself need not, however, take place through a bank. In many parts of Asia and Africa, mobile phone companies are developing ways of transferring money by mobile phone to remote parts of the country, where payment can be made in cash through networks of small pay-in and pay-out agents (e.g. filling stations or shops). Technical cooperation can assist partner country governments with advisory services on developing appropriate financial products, awareness-raising among banks on utilising the business potential of remittances, or creating a supportive regulatory framework for mobile banking.

Men and women behave differently when it comes to sending and using remittances.«11

Remittances illustrate very clearly the gender dimension of migration and development. Research has consistently shown that women working abroad send back a larger part of their income to their families than men do. A study on Bangladesh women in the Middle East, for example, showed that they sent back up to 72 percent of their income to their families back home. Sri Lanka provides another example: 60 percent of all Sri Lankan migrants are women, who earn on average significantly less than their male colleagues abroad. Even so, around 62 percent of all annual incoming remittances in Sri Lanka are sent by women. In turn, if women have remittances at their disposal as part of household income, they use larger shares for education and health than male heads of household usually do.

Collective remittances finance social infrastructure.\textsuperscript{12}

In many places, migrants abroad form home town associations (HTAs), whose goal is to promote development in the city or region of origin. HTAs collect money for this purpose which they then invest in non-profit projects, such as building schools or hospitals. Many countries with a large foreign diaspora accordingly began at an early stage to integrate migrants abroad in state development projects in their regions of origin. In the Mexican Tres por Uno or the Philippine Linkapil programme\textsuperscript{13} for example, migrant contributions are enhanced by government matching funds, increasing total investment for infrastructural projects. In Mexico, migrants pay around USD 20 million into these programmes, while the total for the Philippines is around USD 2.2 million.

What are the DC principles in the debate about remittances?

- Remittances are private funds,

The international enthusiasm over remittances and their potential positive effects on growth, investment and employment, which has been unchecked since a 2003 World Bank publication, has so far overlooked the fact that remittances are private funds, earned by private individuals and sent to their families in their countries of origin, who in turn use them according to their needs. States and their governments cannot and should not make any claim to them. Remittances should not be allotted any role by governments in national development plans, and migrants should not be burdened with responsibility for a country’s development. Remittances are no substitute for government action. At most joint goals can be defined between governments and migrants where both can make a complementary contribution to achieving these (for example through matching funds).

- Remittances are part of the financial system.

Governments of migrants’ countries of origin frequently have a major interest in facilitating the transfer of remittances as far as possible, as this has a positive effect on bank refinancing and the national balance of payments. This can be done at various levels in the context of financial system development, e.g. at the level of banks, associations, and regulators and bank supervisors. A stable and demand-oriented financial system does not only need appropriate legislation but also capacity development of institutions such as central banks, regulatory authorities, credit rating agencies and consumer protection associations. Development co-operation can contribute technical advice in the corresponding capacity development.

- Remittances are part of migration policy.

The level of remittances depends on how many people have left their country of origin to work abroad. This in turn reflects the migration policy of the country of origin. Some governments do not have any active migration policy, and simply accept the emigration of their citizens. Others, however, explicitly promote this, to reduce domestic unemployment. Such a strategy is mostly justified by arguing that remittances more than offset the social costs of migration. This may make sense as a temporary measure, but in the long term it should be the goal of governments to offer their own citizens the prospect of living and working at home.

\textsuperscript{12} Orozco 2003b.
\textsuperscript{13} http://www.cfo-linkapil.org.ph/.
Remittances can have conflicting results.

Remittances clearly contribute towards poverty reduction for individual households, but they can also create macroeconomic dependencies and problems (e.g. Dutch disease\(^\text{14}\)). Accordingly, microeconomic and macroeconomic costs and benefits must always be carefully analysed for each country. Based on this, DC can develop measures to maximise benefits and reduce risks.

Not all migrants or recipients of remittances are entrepreneurs or investors.

On the contrary, a major part of remittances is used to meet basic needs. In the international discussion, the view is frequently encountered that remittances should be used more for production than consumption for the purposes of development, and that productive use should therefore be expanded. We feel this is a pointless debate. First, the distinction between use for production and use for consumption is unclear: for example, is housebuilding an act of consumption or production, and to what extent does increased consumption due to remittances contribute to economic growth? Second, migrants themselves determine how the funds are used. One possible role for DC as a result is exploring the scope for using remittances to start businesses or investment, and creating appropriate incentives or encouraging conditions for migrants and recipients of remittances.

\(^{14}\) Preventing currency depreciation in the migrants’ country of origin as a result of high inflows of foreign currency makes it harder to export domestic products.
What options does DC have for action?

Improve data collection

To make any estimate of the importance of remittances for a developing country, it is essential to get an idea of the actual amounts involved. Recording and estimating incoming and outgoing remittances is very difficult, as the example of Germany at the start of these guidelines shows. The World Bank and IMF have been working for a long time on resolving these problems and assisting developing countries in improving their statistics. This is particularly being done through an international working group founded at the initiative of the G8. DC can assist its partner countries in improving national statistics in accordance with IMF proposals, in order to get a better picture of the amount and use of remittances.

Facilitate transfers of funds

Given the great importance attached to preventing money laundering and financing terrorism, the goal of policy is to process international transfers of funds through formal channels. The basic rule here is, the faster, cheaper and more secure formal transfer channels are, the more positive the effect on poverty reduction, as more money reaches the families in the countries of origin. As a result, one of the most important objectives in the field of remittances is to facilitate international transfers of funds. DC can help its partner countries in selecting, designing and implementing various measures to achieve this objective:

a) Steering remittances into formal channels: This can only happen if banks and transfer operators have attractive services to offer to their customers. One example of this is the business model of Moroccan and Turkish banks in Germany. These banks have branches in Germany which are able to transfer funds abroad for their customers free of charge. The advantage of this business model for the bank is that it is not necessary to obtain an expensive banking licence in Germany, while the disadvantage for the customers is that no financial services beyond transfers of funds are offered.

b) Including microfinance institutions (MFIs): Frequently, the use of formal channels is ruled out simply because recipients have no banking infrastructure available, because the distance to the nearest bank is too great, the costs of having an account are too high, or banks do not accept certain (often low-income) population groups as customers. One alternative is MFIs or savings and loan cooperatives which also have a presence in remote regions and directly target this group of customers. One possible way of facilitating sending and receiving remittances for customers is to link the institutions in question with banks which can carry out national and international transfers. An example of this is the Haitian microfinance group Fonkoze, which cooperates with the US CNB on international transfers of funds and is able as a result to offer very cheap transfers.

c) Mobile und branchless Banking: Banks and credit cooperatives are not the only way to reach remote areas. Cell phone operators have even greater coverage, and for several years they have been increasingly moving into the remittances market. Mobile currencies have been introduced in a number of countries which can be transferred by mobile phone and paid in or out e.g. in small shops or filling stations. Well-known examples are M-Pesa, a mobile currency which makes possible transfers of funds from the UK to Kenya (see box) or G-Cash Remit within the Philippines.
d) Cards: Just as mobile as transfers via phone are transfers based on chip cards, which come in various designs. For example, the Spanish La Caixa bank offers its customers accounts with two cards, so that e.g. a migrant in Spain can give a family member in his or her country of origin restricted access to the same account.

e) Regulation: In some cases, the problems with transfers of funds are not with the technical or institutional conditions, but with bank regulation. In order to advance anti-money laundering and combating the financing of terrorism (AML/CFT), very strict regulations were introduced which oblige banks to keep precise records on their customers and payments. However, where remittances are concerned it is worth pursuing a risk-based approach, and not constraining transfers of small sums with red tape. DC can contribute expertise here in programmes offering advisory services to central banks. For example, GIZ has advised the Honduran Government on a gradual introduction of AML/CFT regulations for private sector money transfer operators and a risk-based approach.

How exactly does mobile and branchless banking work?

Carl works in the UK and wants to send money from there to his sister Eliza in Nairobi. He registers with M-Pesa, gets a number and a password, and – thanks to special software on the SIM – has an account. He can use this to pay in the mobile currency M-Pesa by buying a card from the service provider, which is like a prepaid phone card. Now, Carl can send money by mobile phone to Eliza, which is also registered with M-Pesa in Kenya. Payment there is handled by over 40,000 agents, i.e. operators of small shops or filling stations.
Creating transparency in the transfers market

Particularly in the countries from which migrants are sending their money, there is a lack of transparency in the market for transfers. Banks and transfer operators benefit from the fact that it was virtually impossible in the past to get an overview of existing services and seek out the most favourable. Furthermore, customers with a bank account also have a certain loyalty to their bank and may not be ready to look at services of other banks.

To increase transparency and show migrants and their families the individual possibilities for savings, a number of European donors have created price comparison websites.

One example is the site www.Geldtransfair.de, created on behalf of the BMZ. Here, you can get information on various kinds of transfers of funds from Germany to 34 different countries, and compare fees and time needed for transfer offered by various providers. Other European donors have also created similar websites.

Develop financial products for migrants and remittance recipients

Due to their transnational lifestyle, migrants and their families have different needs for financial services than other people. The fact that regular income is earned abroad can create problems with access to loans, savings or insurance products in countries of origin: social systems hardly ever insure citizens abroad, banks usually do not accept security from customers abroad, and migrants are faced with exchange rate losses on savings in the country of origin. There are now good ideas for solving all these problems, and DC can help implement them. In cooperation with financial actors, DC can develop specific products which take into account the specific living circumstances and interests of migrants and their families.

Some concrete examples: Philippine citizens working abroad can make voluntary contributions to the Philippine state health insurance plan and insure their families and also themselves during home leave. In the case of transfers via the Haitian MFI Fonkoze, remittances can be sent directly to the savings accounts of the migrants or their family members. The PAMECAS MFI in Senegal offers its customers combined savings and loan products with which migrants can establish a company or build a house after their return to their country of origin. So-called diaspora bonds are a specific type of investment for migrants. These are fixed-interest bonds which migrants can buy abroad and provide their country of origin with financing for development projects which is not earmarked for specific projects, as is the case with matching funds.

Strengthen financial basic education and customer protection

For migrants sending remittances – and this is the vast majority of migrants – financial basic education and customer protection in the financial sector are particularly important. DC can help establish or advise corresponding consumer protection institutions. Other important tasks for DC institutions can be disseminating information on financial basic education through mass media or campaigns, and developing national curricula which give people the skills to use financial resources wisely.
What have we achieved so far in German DC?

Example 1: Dialogue between banks and migrants and financial literacy in Serbia

Some 3.5 million Serbs live abroad. In 2008 they sent around USD 5.5 billion in remittances to Serbia through formal channels. This is probably equalled by informal remittances, as the majority of Serbian migrants are in European countries from which they can easily travel to Serbia and either take money with them or give it to couriers. In addition, they still have great mistrust of banks due to the traumatic experience with the collapse of the Serbian financial sector in the 1990s. Commissioned by the BMZ, the GIZ Sector Project Migration and Development focused on Serbia. To discover the attitudes of Serbian migrants towards the use of formal transfer channels, GIZ began by carrying out a survey of Serbian migrants in Germany, which also included information on the need for further financial services. This showed that migrants wanted access to financial services in Serbia, often in connection with their own plans to return, but generally did not know how to get the necessary information. As a result, migrants are missing the opportunity to use their money optimally for plans in Serbia or invest it there, and the banks are missing out on a financially strong group of customers. GIZ and the Serbian National Bank accordingly organised a joint conference in Belgrade, where migrant organisations and banks could meet and discuss. It emerged that there is a major information gap between the two groups, with the banks failing to approach their potential customers abroad adequately. For example, only one Serbian bank has a branch in Germany. GIZ subsequently produced an information brochure giving details of the changes in the Serbian banking sector since the 1990s, presenting the services of the banks and customer protection measures in Serbia, and giving tips on using financial services in Serbia. The brochure was distributed directly to migrants as an insert in the largest daily newspaper for the Serbian diaspora. The intensive discussions with banks, consumer protection institutions and development organisations in Serbia provided stimuli for integrating migrants abroad more strongly as a customer group. At the end of 2009, several Serbian banks started creating diaspora information sections on their websites. They are also developing financial products tailored to the needs of migrants.

Example 2: Regulating remittances in Honduras

Honduras is very strongly characterised by migration, mainly to the USA. An estimated 26 percent of its gross national income comes from remittances. In the framework of the PROMYPE cooperation programme (income promotion, job creation) GIZ has for many years supported local and regional development processes in Honduras, and in cooperation with KfW and CIM has also been implementing a component for developing the financial system since 2001. With GIZ support, the Honduran Government has created a regulatory framework providing secure conditions for transfers of funds and microfinance products. These were aligned with international standards, an important prerequisite for smooth international payment transfers. The project also focused on steering transfers of funds by migrants to their families into formal channels, and assisted savings and loan cooperatives in developing products tailored to the needs of migrants. One of these products, called Uniremessa and implemented by the UNIREDD network, is a flexible financial product which gives recipients of foreign transfers an incentive to use the money
to build up savings, to establish companies, or as a guarantee for loans.

**Example 3: Remittances and social protection**

GIZ was commissioned by the BMZ to carry out a study on the question of »Remittances and social protection«. There are few answers to date to the question how remittances can be used to increase social protection, and even fewer proposals regarding DC’s possible contribution to this. The study analyses for the first time **when and how the potential of remittances for social protection can be utilised.** First, it is clear that migration and remittances themselves constitute a private strategy for securing against and managing social risks. People are particularly dependent on migration in countries with high unemployment. In times of crisis, remittance flows are more stable than other financial flows (e.g. foreign direct investment). They also contribute substantially to poverty reduction.

However, migration involves higher risks to people, for example because they do not have health insurance abroad and are at risk of exploitation and legal uncertainty. One task for development cooperation can accordingly be to limit risks in connection with migration and promote the potential of remittances for increasing social protection. For example, rural health insurance systems can become self-supporting faster if remittance recipients are addressed specifically as customers in the initial phase. State health care systems also benefit if they are open to voluntary payments by migrants abroad and insure them. The study proposes adapting concrete measures to the situation in a specific migration and remittance corridor. It shows that the use of remittances for insurance is probably simplest if 1) this is not tied directly to formal employment of migrants or remittance recipients, treating remittances simply as part of disposable income, 2) services are provided promptly and to a limited extent, or 3) the term of insurance coincides with the term of migration.
Example 4: Handbook Financial Literacy for Remittances and Diaspora Investment

Large quantities of remittances are transferred informally – thus without any involvement of formal financial institutions. In these cases, the usage of remittances for savings, insurance products or for productive investment is rare. Therefore, one approach of GIZ is to support the use of cheaper, safer and more efficient formal remittances transfers and their linkage to financial products. The aim is to increase the level of financial inclusion amongst migrants and their families.

Remittances can be a key factor for financial inclusion. It is well documented that remittances facilitate first contacts with formal financial institutions by migrants and their families. Lacking financial literacy and trust in the institutions often prevents them from formal bank saving, from taking a loan or using (micro-) insurance. Additionally, there is often a lack of suitable financial products and services that meet the needs of migrants and their families.

Against this background, in 2012, GIZ in cooperation with the »European Microfinance Platform« developed the handbook FReDi (short for: Financial Literacy for Remittances and Diaspora Investment – A Handbook on Methods for Project Design). On the basis of an analysis of some 50 remittances projects worldwide the handbook presents five methods for designing projects that use the potential of financial literacy to maximize positive and minimize negative effects of remittances: (1) increasing awareness and competition in the remittance market, (2) product design for financial institutions, (3) converting remittance senders and recipients into clients of financial institutions, (4) investments to promote business development and entrepreneurship, and (5) diaspora investment in the country of origin. FReDi provides an overview of existing projects, their lessons learned, experiences and recommendations. It is aimed at stakeholders in international development cooperation and can guide the successful design of new projects and strategies to leverage the potential of remittances for financial inclusion and development.
Bibliography


IOM (2005): Dynamics of Remittance Utilization in Bangladesh. IOM Migration Research Series Nr. 18: Genf.


UN-Instraw (2008): Gender, Remittances and Local Rural Development: The Case of Filipino Migration to Italy. UN Instraw: Santo Domingo.


