Chapter 9

Creating an enabling environment to enhance the development impact of remittances

Remittances can contribute to financing development and improving the lives of millions of households in developing economies. This chapter examines the link between remittances and long-term investments in human capital and other types of productive investments, and analyses the main factors that influence remittance-led development. It further examines and discusses the role of sectoral policies in enhancing the development impact of remittances. The chapter discusses various sectoral policies beyond migration and development policies that can indirectly affect remittance patterns and use. Building on these findings, the chapter explores how policies, directly and indirectly, can spur development by enhancing the sending and use of remittances.

Remittances are an important source of funding for countries with large emigration rates, and a key source of income for many households from developing countries. The volume of remittances to low and middle-income countries is estimated to have reached USD 432 billion in 2015, more than three times their amounts of official development assistance (Ratha et al., 2016). Maximising the positive effects of these remittances is therefore crucial for alleviating poverty and promoting sustainable development in migrant-sending communities and countries. But what factors drive the sending and spending of remittances, and how can policies enhance remittance-led development?

Studies show that households, especially those with limited resources tend to use these funds primarily for basic consumption (Adams and Cuechuecha, 2010). It is also important to keep in mind that remittances constitute private household income and it is up to the household to decide how these funds are best used. However, a favourable policy environment can increase returns to investments and expand investment options for remittance-receiving households. Discussions on linking remittances to development and development finance have so far mainly focused on policies that directly affect migration and remittance behaviour. However, the link between remittances and development is influenced by a multiplicity of factors; various other public policies can have an indirect impact on remittance behaviour but so far have only received limited attention.

This chapter analyses the factors that influence remittance-led development, and explores how policies, directly and indirectly, can spur development by enhancing investments stemming from remittances. The chapter starts with an overview of the importance of remittances for development at both local and national levels. It then draws on the IPPMD data to examine the link between remittances and various types of investments and to reveal the obstacles to more productive investment. Finally it discusses conditions for remittance-led development and how policy in several sectors can enhance the development impacts of remittances.

Table 9.1. **Remittances, sectoral policies and development: Key findings**

How do remittances affect countries of origin?	How do sectoral policies affect remittances?
● Remittance-receiving households are more likely to own businesses, real estates or agricultural assets than other households.	● The investment and financial environment plays a significant role in the way remittances are used.
● The link between remittances and productive investments is however often limited to urban areas.	● Polices to relieve households' financial constraints are linked to the probability of receiving remittances, but do not seem to influence the amount of remittances received.
● By investing in education and health, remittance-receiving households help increase human capital in emigration countries.	● Policies that make the financial sector more accessible to all parts of the population can encourage more remittances to be sent through formal channels, which can generate further spill-over effects.

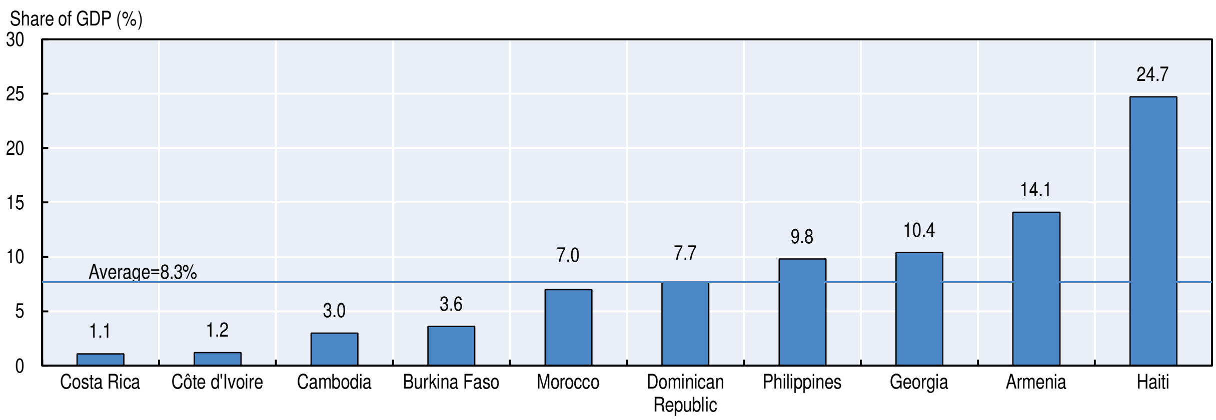
Note: These findings do not apply to all countries. More country-specific findings can be found in the IPPMD country reports.

Remittances represent an important national and household income source

Remittances are an important source of foreign exchange for many developing countries, both in terms of absolute numbers and as a share of Gross domestic product (GDP). Among the IPPMD countries, remittances constitute a significant share of national income in Haiti (25%), Armenia (14%), Georgia (10%), and the Philippines (10%) (Figure 9.1). Haiti and Armenia are among the top remittance receivers in the world as a share of GDP (8th and 11th respectively). In absolute terms, the Philippines receives the third highest remittances globally, at USD 28 billion in 2015, after India (at USD 69 billion) and China (at USD 64 billion) (Ratha et al., 2016).

Figure 9.1. **The contribution of remittances to GDP varies across the IPPMD countries**

Remittances as a share of GDP (%), 2015



Source: Word Bank, Annual Remittances Data (inflows), *World Bank Migration and Remittance data, http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data.*

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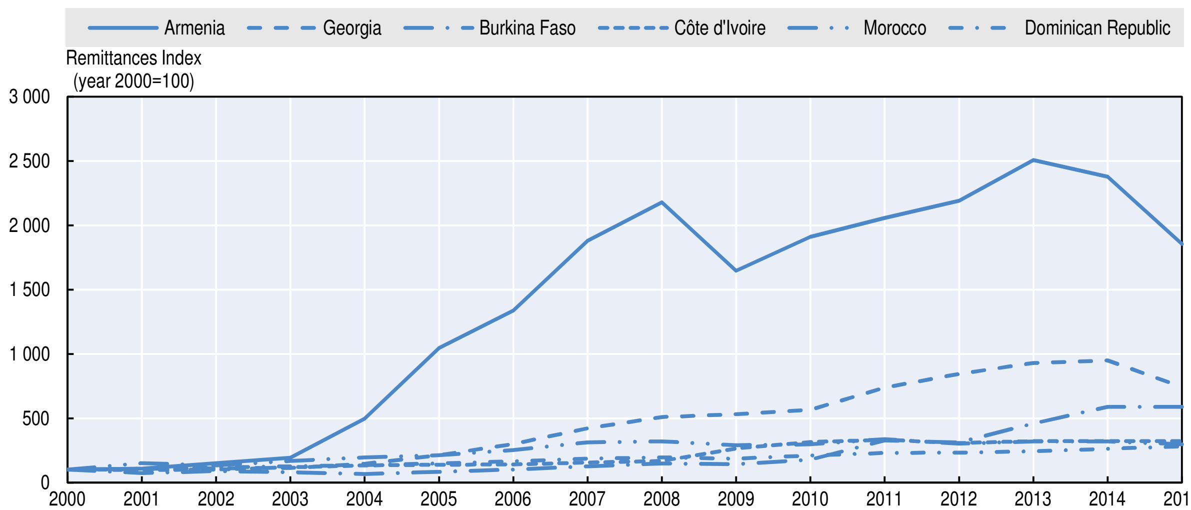
The global annual growth rate of remittances has slowed considerably in recent years, from 7.4% during 2010-13, down to 0.4% in 2015. The slowdown is mainly explained by harsh economic conditions in major remittance-source countries and the depreciation of several important currencies (e.g. the rouble and the euro) against the US dollar (Ratha et al., 2016). The fact that many banks are closing down their money transfer operator accounts in response to anti-money laundering measures, a practice referred to as de-risking, is another factor that contributed to the slowdown in remittance flows (Ratha et al., 2016). Remittance growth in the IPPMD partner countries has been mainly positive between 2000 and 2015 (Figure 9.2). For some countries remittances are only beginning to have an impact on GDP. This is the case for Burkina Faso: remittances are still rather low relative to GDP, but growth in remittance inflows was the third highest among all the partner countries between 2000 and 2015. Other countries – such as Morocco – are seeing the contribution of remittances level out. Armenia and Georgia had the highest growth rates in remittances of all the partner countries, but experienced a decline in growth during 2013-15, mainly due to a decline in economic activity in Russia and the depreciation of the rouble (Ratha et al., 2016).

As would be expected, the share of remittances in a country's GDP is strongly correlated with the emigrant stock as a percentage of the population (Figure 9.3). For some countries, however, remittances make up a disproportionally high share of their GDP. Haiti, for instance, has approximately the same proportion of emigrants abroad as the Dominican Republic (about 13% of the population), but its share of remittances in GDP is three times greater (22.7% vs. 7.5%).[1] Such economies have a much greater dependence on remittances.

Figure 9.2. **Armenia has seen the highest growth in remittance inflows, 2000-2015**

Evolution in the size of remittance inflows since 2000 (= 100)



Note: Only the six countries with the highest and lowest growth rates are shown.

Source: World Bank, Annual Remittances Data (inflows), World Bank Migration and Remittance data, *http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data*.

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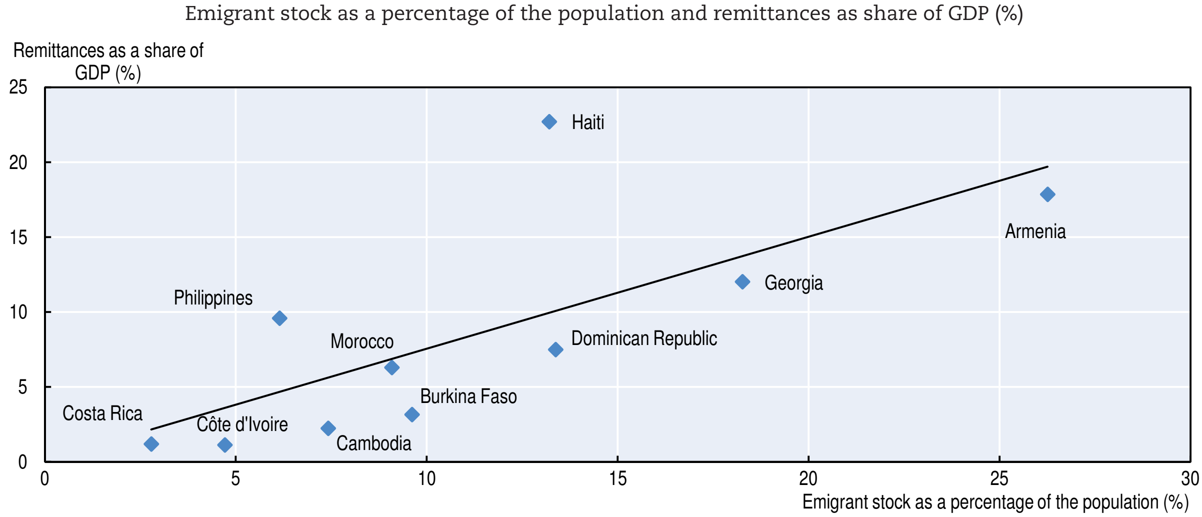
Figure 9.3. **The weight of remittances in GDP is generally related to a country's emigration rate**

Emigrant stock as a percentage of the population and remittances as share of GDP (%)



Source: World Bank, *http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data*, and UNDESA *International migrant stock 2015*, *http://www.un.org/en/development/desa/population/migration/data/estimates2/estimates15.shtml*.

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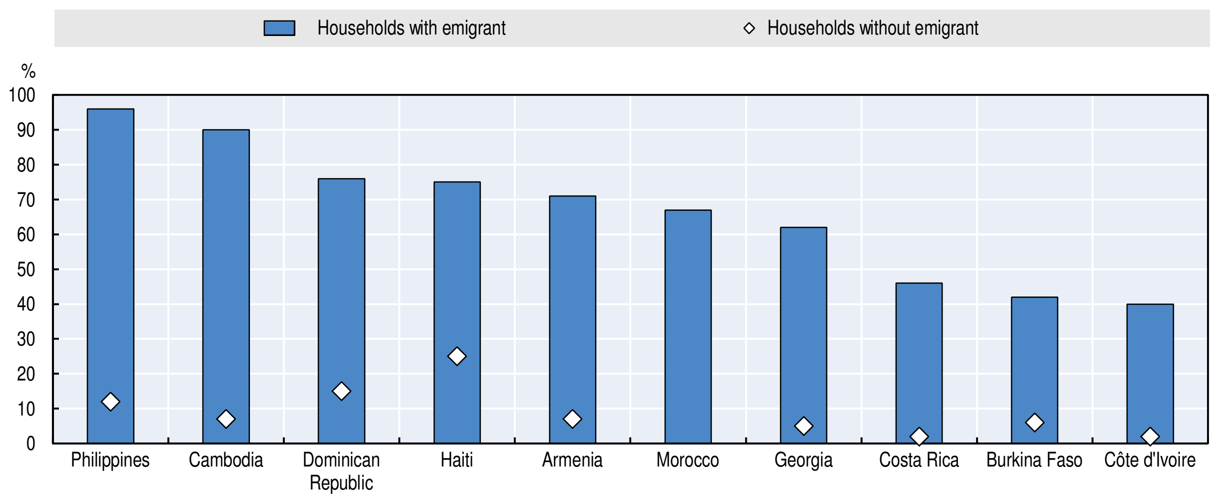
Not all emigrants send remittances back to their household and not all remittance-receiving households have an emigrant member (Figure 9.4). At least three out of four emigrant households in Cambodia, the Dominican Republic, Haiti and the Philippines receive remittances. In the Philippines, nearly all emigrant households receive remittances (97%). In Burkina Faso, Costa Rica and Côte d'Ivoire, however, less than half the emigrant households receive remittances. Having an emigrant member is therefore not a precondition for receiving remittances. Households may also receive remittances from more distant relatives or from friends. In Haiti, 25% of households without emigrants still receive remittances. Receiving remittances from individuals that never formed part of the household members is also relatively common in the Dominican Republic (at 15% of the non-emigrant households) and the Philippines (12% of the non-emigrant households).

Figure 9.4. **Migration and remittances are closely linked, but non-migrant households also receive remittances**

Share of households receiving remittances (%), by whether they have an emigrant



Note: Data on households without emigrants but receiving remittances is not available for Morocco.

Source: Authors' own work based on IPPMD data.

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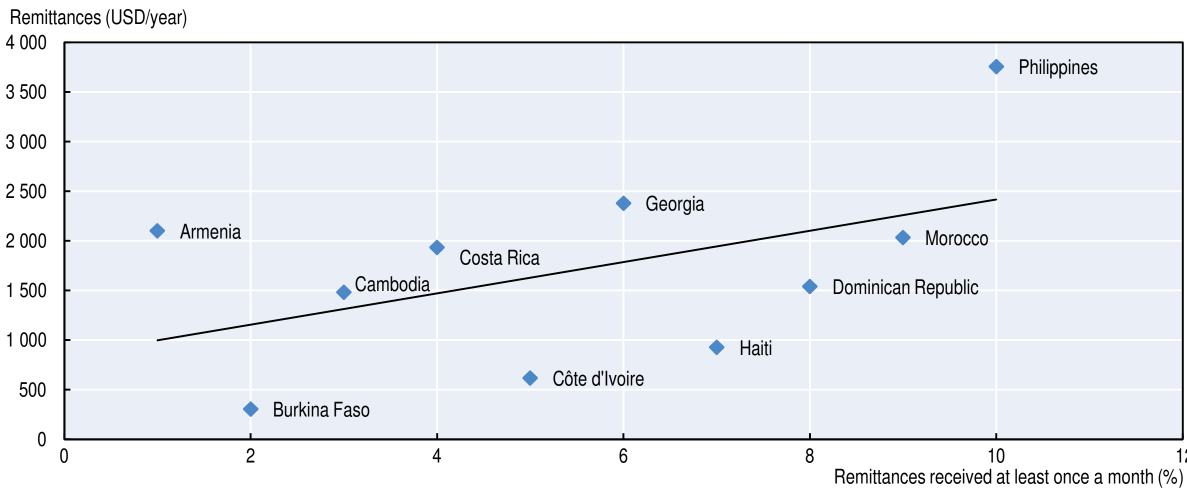
Remittance-receiving households in the IPPMD survey were asked how often they receive remittances, and how much remittances they had received in the past 12 months. On average, around 40% of remittance-receiving households receive remittances at least every month, and the amounts received on average add up to about USD 1 500 to 2 000 a year[2] for these households (Figure 9.5). The Philippines stands out for both amounts and frequency of remittances received: two out of three recipient households receive remittances at least once a month, and households receive on average about USD 3 700 a year. Households in the Dominican Republic also receive remittances relatively frequently: about 54% receive remittances at least once a month. The frequency of remittance receipts appears to be linked to the availability of financial service providers. Chapter 6 shows that across the partner countries, the Philippines and the Dominican Republic have the least differences in financial service provision between urban and rural areas (Figure 6.2). In Burkina Faso, where financial service coverage is scarce in general and especially in rural areas, households receive far fewer remittances and receive them less often than households in the other partner countries.

Figure 9.5. **More frequent remittances are linked to higher amounts of remittances**

Average amount of remittances received in the past 12 months and share of households that receive remittances at least once a month (%)



Note: Remittance data were collected in local or destination country currency, and converted into USD using official exchange rates as of July 1st 2014.

Source: Authors' own work based on IPPMD data.

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The development potential of remittances is not fully realised

Part I of this report (Chapters 3 to 7) analysed the links between remittances and development outcomes in five key sectors (labour market, agriculture, education, investment and financial services, and social protection and health). The analysis focused on two main ways[3] in which remittances can contribute to development:

- **productive investments**, such as in business, real estate and agricultural assets and activities
- **human capital investments**, in education and health.

The findings show that although remittances are often invested in ways that contribute to development, the full potential of remittances is not being entirely realised. This section explores this theme for these two types of investments.

Remittances may also affect household members' labour decisions. When a working member of the household emigrates, those left behind may have to adjust their work patterns. However, if the household receives remittances, these can make up for any lost income and may be high enough to reduce people's incentives to work. The analysis in Chapter 3 shows that in most countries the receipt of remittances is negatively associated with household labour supply. The negative association is less pronounced in households involved in agricultural activities, which are normally more labour intensive.

There are several barriers to the productive investment of remittances

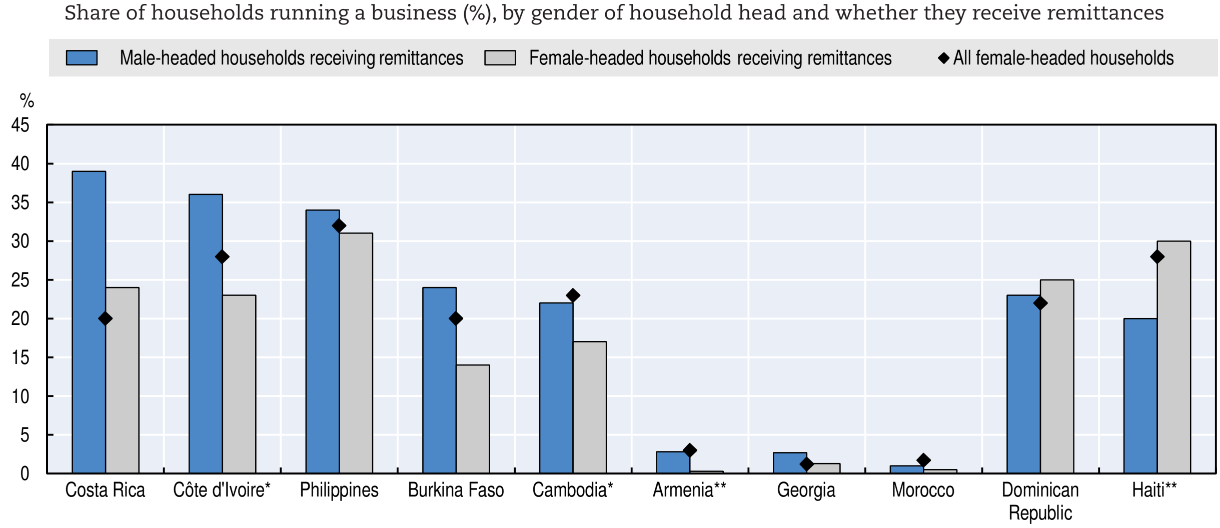
According to the literature, remittances may remove credit constraints and allow households to invest in businesses and other productive activities (Mezger and Beauchemin, 2010; Woodruff and Zenteno, 2007; Yang, 2008). However, remittances do not always translate into higher investments and savings. Poorer households have been shown to use the additional income from remittances to improve their consumption of basic goods rather than to invest in human and physical capital (Adams and Cuechuecha, 2010). Remittances spent on consumption may however, apart from increasing the welfare of the household, also lead to development by, for example, boosting local demand.

What do the IPPMD data say about the link between remittances and productive investments? Part I of the report (Chapters 3 to 7) shows that remittance-receiving households tend to have a higher share of self-employed members (in Armenia, Costa Rica, Georgia and Haiti) and a higher probability of running a business (in Burkina Faso, Costa Rica, the Dominican Republic and Haiti).[4] Receiving remittances is linked to real estate ownership in Armenia, Georgia and the Philippines. Agricultural households receiving remittances are more likely to own high-value livestock in Georgia and the Dominican Republic and to own more agricultural land and assets in countries with initially low household agricultural asset ownership, especially Burkina Faso.

Gender may also play a role in remittance investments. Business ownership is more common in male-headed households in most countries, and especially among remittance-receiving households (except in the Dominican Republic and Haiti; Figure 9.6). This difference is most pronounced in countries where male migration is more common (Burkina Faso, Costa Rica, Côte d'Ivoire and Cambodia). Migration may alter the gender composition and gender dynamics within households, which in turn can have implications for the use of remittances. In a context where a majority of emigrants are men, women left in the household play a key role as recipients and managers of remittances. However, productive activities by women may be impeded by their limited access to land – and credit markets and low financial literacy (IOM, 2010). The higher business ownership in male-headed households indicates that households headed by women may face such barriers in starting up and operating businesses.

Figure 9.6. **Male-headed households are more likely to run businesses**

Share of households running a business (%), by gender of household head and whether they receive remittances



Note: Statistical significance calculated using a chi-squared test is indicated as follows: ***: 99%, **: 95%, *: 90%.

Source: Authors' own work based on IPPMD data.

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On the other hand, countries with relatively high female emigration often experience higher business ownership among female-headed households than male-headed households. The Dominican Republic and Haiti (where 58% and 49% of emigrants are women) are – together with Costa Rica – the only countries where business ownership is more common among female-headed remittance-receiving households than among all female-headed households (Figure 9.6). The higher business ownership among female-headed households in countries where female emigration is more common could suggest that women are empowered by emigration and this makes it easier for them to invest (Deere et al., 2015; UN-INSTRAW, 2008).

The IPPMD research also finds that the link between remittances and productive investments is to some extent influenced by household location. Remittances are only linked to business ownership in urban areas. A possible explanation could be a lower demand for business services in rural areas where population density is lower and households in general are poorer. Business investments may also be impeded by the limited availability of credit markets and financial services in rural areas. Chapter 6 showed that financial institutions in rural areas are often scarce.

Another important factor for remittance investments is a favourable investment climate. The investment climate, as measured by the ease of doing business global index (World Bank, 2016) does not fully explain the differences in remittance investments across countries however.[5] While Armenia, Costa Rica, the Dominican Republic and Georgia have the most favourable investment climates and lowest barriers to doing business (Chapter 6), Haiti and Burkina Faso have the least favourable conditions for running a business. Yet, remittances seem to be linked to business creation in these two low-income countries. This is probably because remittances help potential entrepreneurs overcome the shallowness of financial markets and the lack of access to affordable credit.

Remittances enable households to invest in human capital

The literature suggests that households may invest remittances in human capital, particularly education and health (Hildebrandt and McKenzie, 2005; Zhunio et al., 2012).

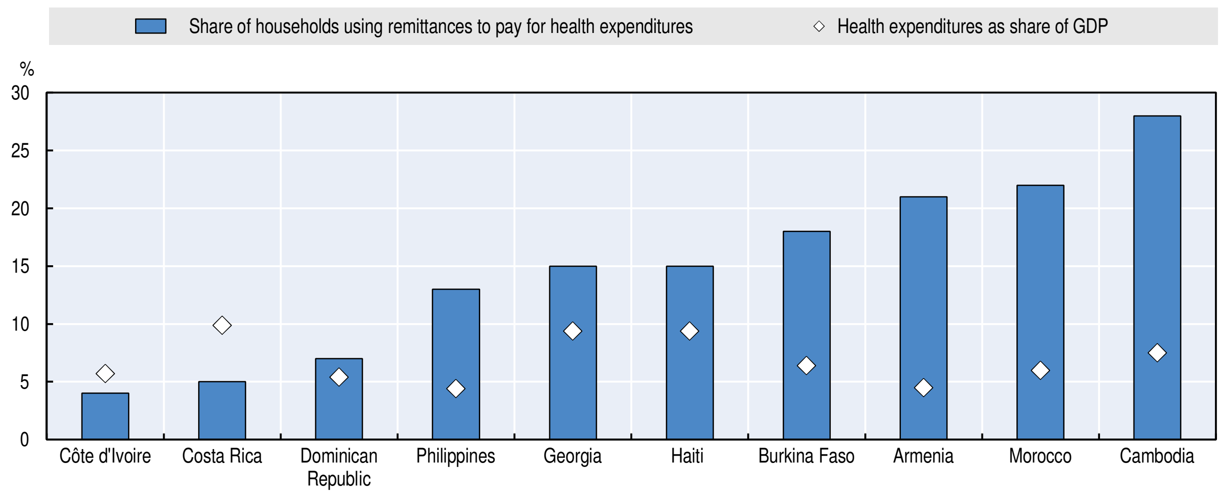
Remittances are linked to higher household expenditures on education in most IPPMD partner countries (Chapter 5). In addition, remittance-receiving households are more likely to have children in private schools than households without remittances. However, remittances are not linked to higher school attendance in most countries. The only exceptions are Burkina Faso and Côte d'Ivoire, which have the lowest primary school enrolment rates in the sample.

The analysis in Chapter 7 shows that remittances are used to finance health expenditures in some of the partner countries. Paying for health treatment was also a fairly common answer among the households when directly asked how they had spent their remittances since a member left the household (Figure 9.7). In Armenia, Georgia and Morocco, households that receive remittances are more likely to visit health clinics (Chapter 7), which could indicate that receiving remittances helps relieve household financial constraints.[6]

Government spending on health as a share of GDP is relatively low in several of the countries with the highest share of households spending remittances on healthcare (Armenia, Cambodia and Morocco, Figure 9.7). The correlation between government health expenditures and remittance-receiving households' health spending is not straightforward, however. National health expenditures cannot entirely explain the difference across countries in the use of remittances for health care, and says little about quality and access of health care facilities in the surveyed communities.

Figure 9.7. **There is no evident link between government health expenditures and remittances used for health**

Share of households using remittances to pay for health expenditures since emigrant left (%), public health expenditures as share of GDP (%)



Source: Authors' own work based on IPPMD data and World Bank *World Development Indicators*, *http://data.worldbank.org/products/wdi*.

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The strongest link between remittances and human capital investment thus seems to be investment in education – mainly sending children to private schools or paying for other expenses related to their education. The weaker links between remittances and school enrolment rates may be due to the fact that school enrolment rates are relatively high in almost all the IPPMD partner countries (Figure 5.1, Chapter 5).

Public policies can enhance remittance-driven investments

The previous section has shown that remittances can be linked to investment in areas with development potential such as agriculture, businesses and schooling, but that many factors shape the relationship between remittances and investment. Although remittances are private sources of funding, and policy makers cannot decide how individuals and households spend their money, public policy can play an important role in creating an enabling environment for optimising the volume and the use of remittances. Policies can make it easier to send and receive remittances, and can guide productive remittance investment.

While policy makers and researchers have focused significant attention on migration and development policies when targeting how remittances are sent and used, more general sectoral policies can influence remittance behaviour indirectly by affecting individual and household characteristics as well as institutions and infrastructure. However, these linkages have received much less attention.

The rest of this chapter discusses important conditions for remittance-led development, and how policies can create an enabling environment to enhance the development impact of remittances.

Several factors influence the development impacts of remittances

First of all, the development impact of remittances is influenced by the **characteristics or pattern of the remittances** themselves. For example, the amount and frequency of remittances play a role in investments. Productive investments – e.g. business start-ups or switching from subsistence to commercial farming – often require relatively large funds. Research has shown that the amount of remittances received is important for investment decisions (Massey and Parrado, 1998). Remittances that are sent home regularly are more likely to spur investment, as the households may be more likely to overcome risks involved in long-term investments if the remittance income is stable. When remittances are sent through formal channels, they can also more easily be used as collateral.

Individual and household characteristics such as location and gender composition indirectly influence remittance-led development through an impact on remittance pattern and use. Many emigrant households live in rural areas with less developed financial infrastructure. In remote rural areas, difficulties accessing markets may also deter households from investing in for example more lucrative commercial crops (Galetto, 2011). Other characteristics affecting remittance use include household wealth, the gender of the household head and the vulnerability of the household to shocks. Poor households that are vulnerable to negative shocks may use remittances as insurance (Yang and Choi, 2007) and not be able to invest in more productive assets. Poorer households often also find it harder to access credit.

Finally, **unfavourable infrastructure and institutions** may hinder productive remittance investments (Galetto, 2011). Poor education and financial infrastructure, such as a lack of schools and financial service providers, can hold back remittance investments. On the other hand, well-functioning credit and land markets, and an encouraging investment climate, can help remittances to be channelled productively.

The multiple factors linking remittances to investments and development are summarised in Table 9.2, and further discussed in the final part of the chapter.

Table 9.2. **Multiple factors can enhance the development potential of remittances both directly and indirectly**

	Remittance pattern	Infrastructure and institutions	Individual and household characteristics
Elements	Amounts sent	Financial inclusion	Gender of household head
	Frequency	Investment climate	Urban/rural location
	Remittance channel	Access and functioning of markets	Wealth and vulnerability
	Use of remittances	Availability and quality of schools and other educational services	
		Health services	
Nature of impact	Direct	Indirect	Indirect

Migration and development policies already target remittances

There has been growing policy interest in encouraging flows of remittances and creating an enabling environment for investing remittances productively. The Addis Ababa Action Agenda and the Sustainable Development Goals are some of the most recent examples, committing to ensure affordable financial services for migrants and their families and to work towards a reduction in the obstacles to send and receive remittances (UN, 2015).

Migration and development policies in countries of migrant origin to date have largely focused on lowering the costs of remittances by increasing competition among service providers and through technology improvements such as online and mobile money transfer systems.[7] The average global cost of transferring remittances decreased by about 2.2 percentage points between 2009 and 2015 (Ratha et al., 2016), from an average global costs of about 9.6% for transferring USD 200 in 2009 to a cost of 7.4% in the third quarter of 2015. Costs vary across regions; however, certain regions and remittance corridors are subject to very high costs, in particular sub-Saharan Africa (Ratha et al., 2016). Several of the IPPMD partner countries face remittance transfer costs above the 3% Addis Ababa Action Agenda target (Box 9.1).

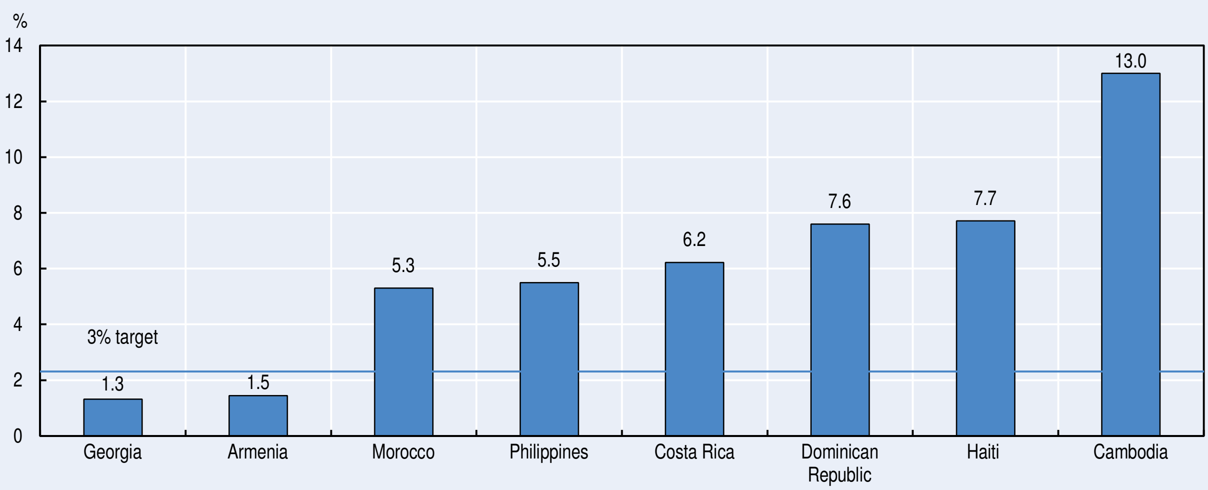
Box 9.1. **Remittance transfer costs in the IPPMD partner countries**

The cost of sending a small sum of money via the main remittance corridors varies significantly across the IPPMD countries. Georgia[8] and Armenia are the only countries where remittance costs fall below the 3% target incorporated in the Addis Ababa Action Agenda and Sustainable Development Goals (specifically SDG10c) (Figure 9.8). Signatory countries are committed to ensuring affordable financial services for migrants and their families and work towards reducing remittance transfer costs to less than 3% of the remittance amount by 2030 (UN, 2015).

Cambodia has the highest remittance transfer cost among the IPPMD partner countries, at 13%. It is also the only country in the sample where no positive link between remittances and productive investments has been established. The high costs facing Cambodian remittance-receivers may seem paradoxical as the remittances are sent from neighbouring Thailand. However, South-South remittance transfer costs are in general higher than North-South remittances costs due to currency conversion charges at both ends (Ratha, 2007). Due to data availability, remittance transfer costs are limited to one or two corridors for some countries. The main remittance corridors with available data are displayed in Annex 9.A1.

Figure 9.8. **Remittance costs vary greatly across remittance corridors**

Remittance transfer costs (share of amount sent) of transferring USD 200 in the main remittance corridors (%)



Note: Data are for the second quarter of 2016, weighted by the share of emigrants in the IPPMD data in each main remittance corridor. For Georgia, data are only available for the Russia-Georgia remittance corridor – the main migration corridor from Georgia in the IPPMD data, accounting for 30% of Georgian emigrants. Data for Burkina Faso and Côte d'Ivoire are not available. The line represents a cost of 3%, the broad target of the Addis Ababa Action Agenda.
Source: Authors' own calculations based on World Bank *Remittance Prices Worldwide* data, *http://remittanceprices.worldbank.org.*
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Other policy goals include changing regulatory frameworks, fostering financial inclusion among migrants and remittance-recipients, promoting financial literacy and expanding service provision. A number of policies have also been implemented to increase the volume of remittances and help people channel remittances towards more productive uses:

- **Tax exemptions** for remittance income: most developing countries offer some form of tax incentives to attract remittances, although sometimes these bring unwanted side-effects such as tax evasion (Ratha, 2007).
- **Incentives to attract diaspora investments**: a number of countries, including Ethiopia, Ghana, Kenya, Nepal, the Philippines and Sri Lanka, have issued diaspora bonds to attract savings from migrants abroad (Ratha et al., 2015).
- **Matching grants schemes**: these are government schemes to channel collective remittances received through "home town associations" set up by diaspora groups to support local development in the countries of origin. One of the most famous of these schemes is Mexico's *Tres por Uno* (Three for One). The federal, state and municipal governments all contribute by tripling the amount of money sent by the migrants to support local development projects.

The potential of sectoral policies has yet to be realised

While the policies outlined above have a direct effect on remittance amounts and use, sectoral policies can also help leverage remittances for development by relieving financial constraints and improving market access and functioning.

Policies that relieve financial constraints do not seem to influence the amount of remittances received

Policies that address household financial constraints include subsidies, cash transfers and other types of financial aid. Such policies could have two opposing effects on remittance flows. On the one hand, they could reduce the pressure on migrants to send remittances home ("crowding out" or substitution effect), while on the other, by meeting households' basic needs, they could increase the incentives for migrants to remit because the funds are more likely to be spent productively (complementarity effect).[9] Linkages between remittances and government transfers and redistribution programmes may have implications for the efficiency of the programmes. For example, if public transfers lead to lower private transfers, the intended welfare effect of the programme may, partly or fully, be offset by a reduction in remittances. Not taking such linkages into account may also pose challenges when evaluating the welfare impacts of the programme (Jensen, 2004).

Conditional cash transfer (CCT) programmes are a good example of a policy programme that could affect remittance patterns. CCT programmes have become an important part of social policy in many developing countries to reduce poverty and encourage investments in key areas such as education and health by providing cash transfers conditional on the household's participation in health and education services (e.g. school attendance and health check-ups). Previous research has mainly investigated the link between CCTs and private transfers in general (sometimes including remittances). Evidence from Mexico show that households benefiting from a CCT programme received fewer private transfers than non-benefitting households (Attanasio and Rios-Rull, 2000). However, other studies from Mexico, Honduras and Nicaragua found a limited or no relationship between participation in a CCT programme and the receipt of private transfers (Teruel and Davis, 2000; Olinto and Nielsen, 2007).

Four countries in the IPPMD sample – Costa Rica, the Dominican Republic, Haiti and the Philippines – have large-scale CCT programmes; but the association between receiving CCTs and remittances is mixed (Chapter 5). In Haiti, the presence of CCTs seems to stimulate remittances, while in the Philippines and the Dominican Republic being a beneficiary of CCTs seems to be negatively linked to receiving remittances. This is likely linked to emigration patterns, as CCT programmes are correlated with higher emigration rates in Haiti, but to lower emigration in the other countries. Receiving CCTs may also affect the use of remittances by, for example, redirecting more remittances into investments in business and real-estate when basic education spending is covered. This is however difficult to investigate empirically due to limitations in sample size.

Chapter 4 analysed the impact of agricultural subsidies on the probability of receiving remittances and the amounts of remittances received. The results are again mixed, showing both higher and lower levels of remittances received by households benefitting from agriculture subsidies in a limited number of countries. In a majority of the countries, no link between agriculture subsidies and remittance patterns was found.

Policies that facilitate market access can generate more formal remittances and spur investments

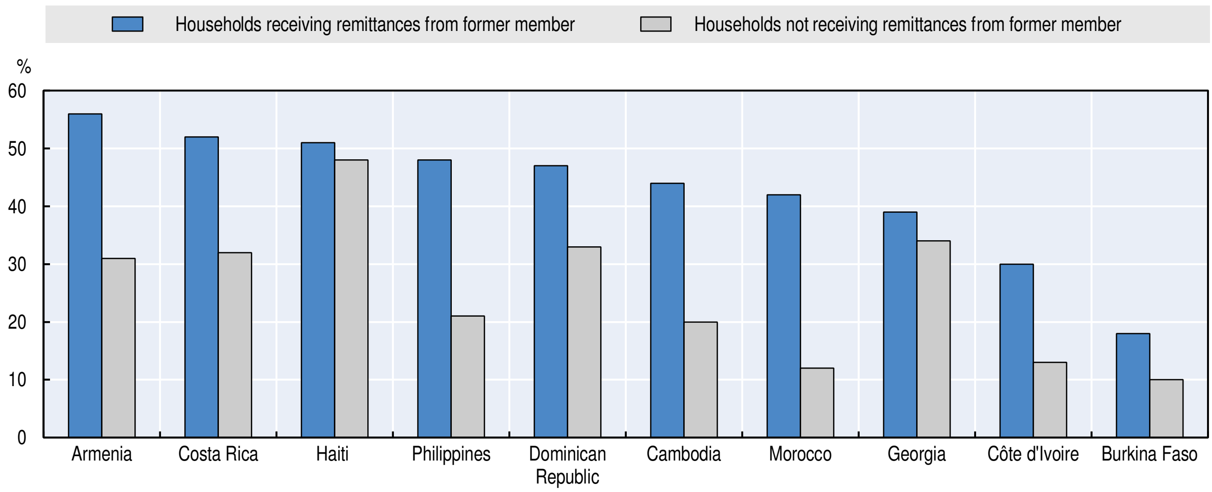
The financial sector plays a crucial role in facilitating remittances in productive investments and enhancing the development impacts of remittances. As in many developing countries, financial systems in several of the IPPMD partner countries often serve only a limited proportion of the population (Chapter 6). Policies that make the financial sector more accessible to all parts of the population can encourage more remittances to be sent through the formal financial system, which is more secure for the sender and receiver. The inflow of remittances into the formal financial sector can also generate multiplier effects in the economy by boosting local demand and increasing the capital available for credit. Evidence from the IPPMD project shows that households without a bank account are more likely to receive remittances through informal channels, while access to formal channels for sending remittances is also linked to higher levels of remittances. Expanding the number of financial service providers and financial inclusion could hence strengthen the link between remittances and productive investments, especially in rural areas where remittance-driven business investments are low, as discussed in Chapter 6.

To maximise the full investment potential of remittances, financial inclusion and access to credit should be extended to all households in remittance-receiving regions, given that households without migrants also receive remittances (Figure 9.4). Doing so could maximise the effect of remittance inflows both directly and via multiplier effects.

Land markets are also important for remittance investment. Market access may pose particular challenges for certain household types. In countries with high male emigration, women often run the household's economic affairs. Among the IPPMD partner countries, households receiving remittances from former members are more likely to be headed by women (Figure 9.9). It is therefore important to address any potential gender discrimination in access to land tenure and credit (UNECA, 2007). The IPPMD research found that in several partner countries, female-headed households are less likely to own businesses (Figure 9.6), which may be linked to a lack of access to credit. Such barriers to access are likely to have considerable negative effects on overall remittance investments. In addition, for people to invest in land – whether agricultural or non-agricultural – the land must be easily bought and sold, and households must be able to obtain secure land titles.

Figure 9.9. **Households receiving remittances from former members are more likely to be headed by women**

Share of female-headed households (%), by whether they receive remittances from former member



Source: Authors' own work based on IPPMD data.

StatLink http://dx.doi.org/10.1787/888933418447

Policy recommendations

Remittances can contribute to financing development and improving the lives of millions of households in developing economies. While remittances are private funds, sent and received by individuals and households who use them according to their own needs, governments can play an important role in enhancing the positive welfare impacts of money transfers by making these transactions less costly and by creating an enabling environment for remittances to be used in the most productive way for the households.

The findings in this report show that remittances are linked to development through long-term investments in human capital and other forms of productive investments. In most partner countries, households that receive remittances are more likely to engage in productive activities such as owning businesses, real estate or agricultural assets, and to spend more on education. The link between remittances and such investments is however not straightforward, and sometimes limited to urban areas, or only prevalent in a few of the partner countries. Policies to support the start-up and operation of small-scale businesses can enable more remittance-receiving households to invest in business activities that generate income for the household and potentially also create job opportunities.

The findings also show that remittances are used for investments in human capital such as education and, to some extent, health. It is therefore important that governments provide services to meet the demand of the households, for example medical insurance schemes, student loans, tutoring and other extracurricular activities. In order to make such services more accessible, services can be coupled with microfinance institutions or other financial institutions that serve remittance-recipients.

An important step towards maximising the benefits of remittances was taken with the adoption of the 2015 Addis Ababa Action Agenda. The agenda includes commitments to ensure that adequate and affordable financial services are available to migrants and their families in countries of origin and destination, and incorporates a target to lower transfer costs. The high costs of transferring remittances should be one of the main areas of policy intervention. Remittance costs are above the 3% target specified by the Addis Ababa Action Agenda and Sustainable Development Goals in eight out of the ten IPPMD partner countries, the two exceptions being Armenia and Georgia. These high transfer costs imply that recipients receive significantly less money than what was sent initially. It also means that migrants tend to use informal channels, which limits the ability of households to save and borrow money in the formal financial system. Reducing transfer costs and expanding financial inclusion and service provision through increased competition can spur the volume of remittances and channel more funds into the formal financial sector.

Finally, a favourable investment climate and increased knowledge about financial activities can spur remittance-driven investments. Emigration affects gender dynamics and composition in the household. In many countries women are left to handle income activities when men emigrate. At the same time, women are often discriminated against, and may not have the same access to key institutions such as land markets and credit institutions. Addressing women's equal access to land and credit markets is important to ensure that remittances can be used in the most efficient way for all recipient households. A particular focus on providing training to female entrepreneurs may also boost remittance investments.

Table 9.3. **Increasing the volume of remittances and boosting remittance-driven investment**

	CROSS-CUTTING RECOMMENDATIONS
Agriculture	● Support the investment of remittances in agricultural expansion and small-scale agri-businesses by developing household financial and entrepreneurial skills to enable more informed investment decisions. ● Ensure that there are adequate credit markets and money transfer operators in rural areas by supporting agricultural cooperatives and rural credit unions, to enable remittances to be channelled easily to agricultural activities. ● Build appropriate agricultural infrastructure, such as irrigation and facilitate access to land and markets to make the sector more attractive for investors.
Education	● Invest in educational infrastructure and trained teachers to meet the demand for education services from remittance inflows, while ensuring that remittance-driven demand does not affect universal access to education. ● Enforce and ensure quality in educational institutions when faced with higher demand for private schools due to remittances. ● Collect migration and remittance information in conditional cash transfer programme data to monitor remittance income changes over time and better understand the full impact of the programme.
Investment and financial services	● Support the start-up and operation of small-scale businesses through providing small business loans and business management training to encourage remittance investments. ● Expand financial service provision, especially in rural areas, by increasing competition among service providers and adapting the regulatory framework. ● Increase financial literacy and entrepreneurial skills among households in communities with high emigration rates, and especially among women in countries with a high share of male migration. ● Address gender discrimination in land and credit markets by changes in the regulatory frameworks to ensure that women have equal access.
Social protection and health	● Develop and provide health-related services to meet demand by remittance recipients. To make them more accessible, such services could be coupled with microfinance institutions or other financial institutions.
	TARGETED RECOMMENDATIONS
Migration and development	● Reduce remittance transfer costs by avoiding restrictions or taxes on remittance inflows as well as any kind of exclusive partnership with money transfer operators. ● Create incentives to attract diaspora investments, for instance through savings accounts in foreign currency and diaspora bonds.

Notes

1. The weight of remittances in GDP in Haiti is partly explained by a low GDP; the second lowest in the IPPMD sample after Burkina Faso.
2. This is in line with findings of other studies based on household surveys – see for example Chappell (2010) for Georgia, and Ratha et al. (2011) for Burkina Faso.

3. Social remittances, i.e. ideas, values and social capital transferred by migrants, constitute another link between migration and development. However, this link is not discussed in this chapter as it goes beyond the scope of this project. Social capital brought back by return migrants is discussed in Chapter 10.
4. Business ownership and self-employment is expected to be closely linked given the broad definition of business applied in the survey (including all types of business activities, incorporating informal self-employment activity). The very low rates of business ownership in Armenia and Georgia may be because households in the Caucasus countries do not define self-employment activities as business activities.
5. This may be partly due to the nature of the index and the types of business included in the survey. The IPPMD survey collects information on all types of business (both formal and informal) while the ease of doing business index is more relevant for formal firms that are registered with the authorities.
6. It is however difficult to establish the direction of causality between remittances and health visits. It may also be that remittance-receiving households experience more health problems than households without remittances.
7. Policies in countries of migrant destination are also important in lowering remittance transfer costs. Such policies are however not discussed here as the focus is on countries of migrant origin.
8. Remittance costs to Georgia may be underestimated as the data only includes one of the migration/remittance corridors: Russia-Georgia. Russia is the main destination of Georgian emigrants (hosting about 30% of the Georgian emigrants in the IPPMD sample), but other significant migration corridors, such as Greece, Turkey and the USA, are not included in the calculations of remittance costs.
9. As discussed in Part I and in Chapter 8, government financial support may also lower the pressure to emigrate in the first place, which in turn would lead to fewer remittances.

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ANNEX 9.A1

Bilateral migration and remittance transfer corridors

Receiving country (in bold) and sending country	Transfer costs (% of sending an amount of about USD 200) (average in bold)	Main country corridor	Share of emigrants in IPPMD data (%)	Notes
Armenia	**1.45**	**Russia**	**83**	
Russia	1.45			
USA	3.6			
Costa Rica	**6.22**	**USA**	**73**	Only one corridor available
USA	6.22			
Cambodia	**13**	**Thailand**	**88**	Only one corridor available
Thailand	13			
Dominican Republic	**7.6**	**USA**	**76**	
USA	8			
Spain	5.43			
Georgia	**1.32**	**Russia**	**30**	Only one corridor available
Russia	1.32			
Haiti	**7.71**	**USA**	**82**	Only one corridor available
USA	7.71			
Morocco	**5.3**	**Spain**	**92**	
France	5.29		27.06	
Belgium	5.2		12.56	
Italy	6.38		15.74	
Spain	5.56		29.27	
Germany	8.6		3.27	
The Netherlands	7.23		4.24	
Philippines	**5.5**	**Saudi Arabia**	**73**	
USA	5.76		13	
Saudi Arabia	4.29		18	
Canada	6.22		6	
Malaysia	4.23		2	
Japan	11.1		7	
United Arab Emirates	3.9		11	
Australia	5.12		2	
Italy	6		5	
Kuwait	3		3	
Qatar	5		4	
UK	7		2	

Note: The remittance receiving country is specified in bold, with the (main) remittance sending countries listed below. The average transfer cost for each receiving country is the weighted mean of the costs of the specified transfer corridors.

Source: World Bank, *Doing Business* (database), *www.doingbusiness.org/rankings*.

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