Remittances:

Sending money home

IFAD
Enabling poor rural people to overcome poverty

Remittances, the money migrant workers send home to their families, provide crucial financial support for millions of people in developing countries. For years, migrants worked in the shadows of globalization while their remittances went uncounted by governments and aid agencies. Over the past 10 years, however, the true size of their contribution – well over US$300 billion a year – has come to light.

IFAD/F. Mattioli

Ana and Julio Cortez live in the poor rural area of Tronalagua in El Salvador. They used to grow just enough maize and beans to feed themselves. Three of their children migrated to the United States and now send money home to support their parents and siblings.

"Before the children left our house, we had a dirt floor," Ana says. Now their home has a new floor, electricity, running water, a kitchen, telephone and television.

The decision to migrate is a personal one, often driven by economic necessity and the need to take care of family members back home.

The money migrants send home provides a lifeline out of poverty for those left behind. Most of this money – 80 to 90 per cent – is spent on basic necessities such as food, clothing, shelter, health care and education.

At well over US$300 billion a year, remittances to developing countries surpass foreign direct investment and development assistance combined. In nearly 40 countries, remittances make up more than 10 per cent of GDP. About one third of remittances go to rural areas where they play an especially important role in raising incomes and reducing poverty.

Remittances are not a substitute for development efforts or aid. Indeed, they are a sign of a development imbalance that is forcing people to leave home in search of a better life abroad. But given the sheer volume of remittances, they have the potential to stimulate local economies, improving life at home so that migration becomes a choice instead of a necessity.

In order for remittances to have the greatest benefit, senders and recipients need access to the types of basic financial services that most people in the developed world take for granted.

At the sending end, migrants need to be able to transfer funds through a fast, efficient, competitive and secure financial system. At the other end, recipients need access to deposit accounts, so they can save, build credit histories and invest in their future. Financial education and more advanced financial services can provide recipients with the tools they require to achieve long-term financial independence. Yet more than 90 per cent of the world's poorest people do not have access to savings accounts, loans, insurance or any convenient way to transfer money.

What is IFAD doing?

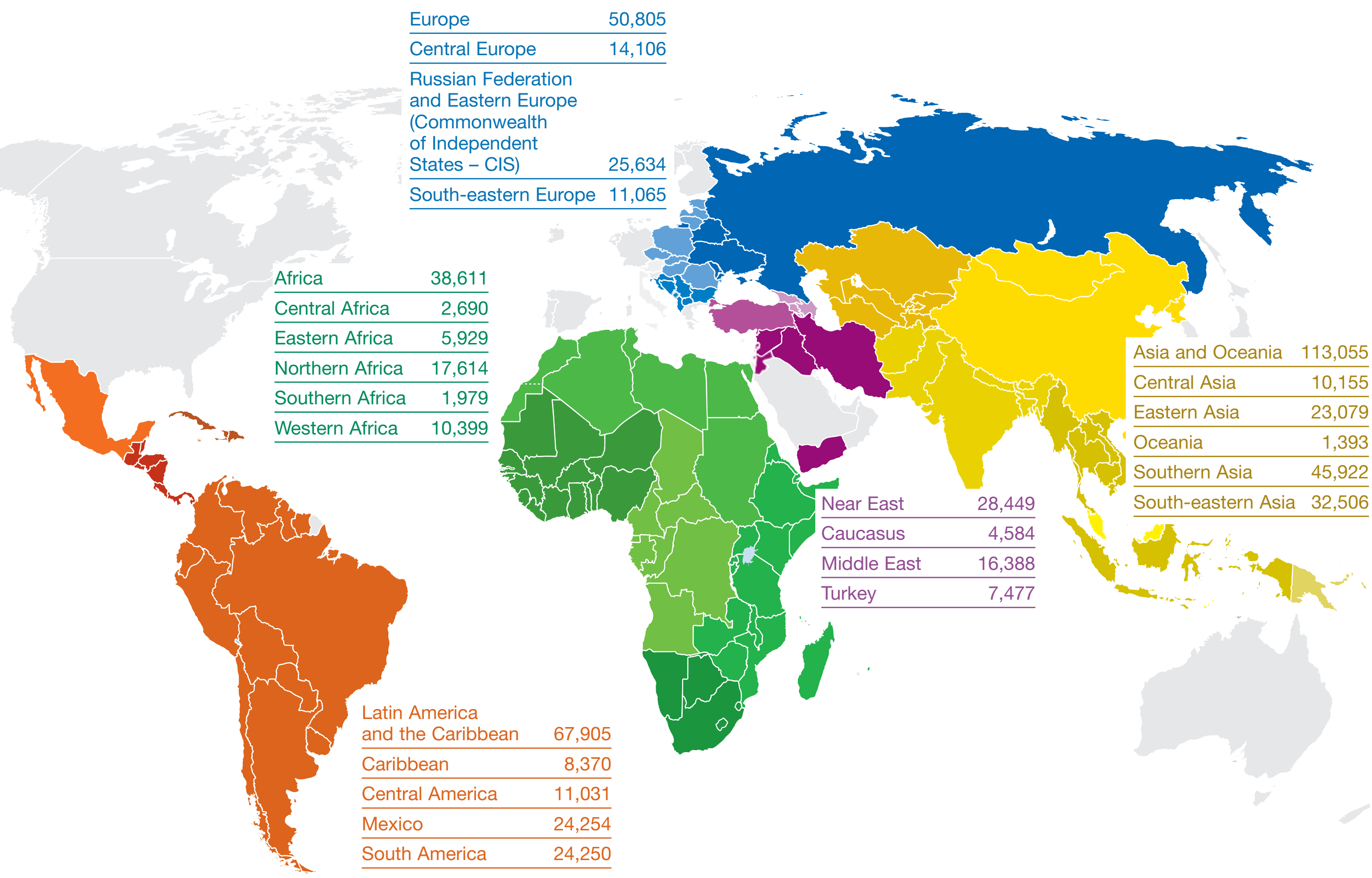
IFAD's goal has always been to empower poor women and men in rural areas of developing countries to improve their incomes and food security. IFAD recognized the importance of extending financial services to poor rural people as far back as the 1970s.

If remittance savings are deposited in a bank or microfinance institution, instead of being kept 'under the mattress', the money can be mobilized to benefit other entrepreneurs. In this way, remittances become an engine for wider local development, as well as directly reducing poverty for the families that receive them.

Working to improve the effectiveness of remittances has been a natural extension of IFAD's work in microfinance. From 30 to 40 per cent of remittances are sent to rural areas, where financial services are often lacking. As a result, the cost of receiving remittances can be extremely high. In addition, people living in remote areas often have to travel great distances to receive remittances. The cost of this journey – both financial and in terms of time – reduces the potential benefits to the recipients.

In the past, IFAD worked with banks and other traditional banking service providers to create more efficient and less expensive ways for migrants to send money home to rural areas. In Guatemala, for example, the IFAD-funded Guatemalan Salcajá Cooperative introduced a way of doing online, international account-to-account money transfers. The cooperative studied the profiles and needs of senders and recipients, and then designed a marketing strategy to increase membership among remittance recipients. As a result, the cooperative

Worldwide remittance flows to developing countries (US$ million)



Estimated total remittances to developing countries: US$300 billion in 2006 now has more than 1,200 people using these services, and 87 per cent of remittance recipients in Salcajá have become 'banked' with access to financial products and services.

Innovation at work

Today, IFAD is exploring more innovative ways of working with remittances. In francophone West Africa, postal services are more widely available in remote rural areas than traditional banks. IFAD is working with the Universal Postal Union to provide remittance services in rural areas using post offices. The project also aims to improve access to financial services, both for remittance senders and recipients, by linking remittances with other financial services such as bank accounts, savings and loans.

In Ecuador, more than 70 per cent of the country's poor people live in rural areas. Almost one third of them do not have access to electricity. They depend on kerosene, candles and batteries for lighting. IFAD is funding a two-year project to help Ecuadorian immigrants in Spain use their remittances to develop clean energy technologies in Ecuador. The project will work to introduce sustainable energy in rural areas, along with a financial mechanism so that remittance providers can invest in the clean technology.

Ethiopia has been plagued by economic stagnation and political turmoil for years, resulting in large-scale emigration. To help improve the situation for those left behind, IFAD is promoting partnerships between African microfinance institutions and financial institutions in the United States to link remittances to other financial services. As a result, Ethiopian migrant families will have access to low-cost remittance transfer services and will also be introduced to other financial products such as savings and loans.

IFAD

KEY FACTS

- There are approximately 200 million migrants from developing countries living outside their country of origin.
- On average, remittances are sent 10 times a year.
- Rural areas receive 30 to 40 per cent of remittance flows.
- Remittances are equal to three times net Official Development Assistance to developing countries.
- Over the next five years cumulative remittances to developing countries will surpass US$1.5 trillion.
- Up to 90 per cent of remittances are spent on food, clothing, shelter, health care and education.
- Thirty per cent of remittance recipients currently use debit or credit cards (50 per cent in some countries).
- Transferring remittances using mobile phone technology is becoming a cheaper means of transferring money.
- In Uganda and Ghana, remittances have reduced the percentage of poor people by 11 per cent and 5 per cent, respectively.

Financing Facility for Remittances

IFAD's multi-donor Financing Facility for Remittances is a US$15 million facility that was established in 2006 to reduce costs and increase options for poor rural households by creating partnerships between rural finance institutions and remittance operators.

It is funded by the European Commission; Inter-American Development Bank; Consultative Group to Assist the Poor; Government of Luxembourg; Ministry of Foreign Affairs and Cooperation, Spain; and United Nations Capital Development Fund.

The Facility increases economic opportunities for poor rural people by supporting and developing innovative, cost-effective and easily accessible remittance services. It awards grants of up to US$250,000 per project. The projects selected are focused on three major activities:

- Promoting access to remittances in rural areas
- Linking remittances to rural financial services and products
- Developing rural investment opportunities for migrants and community-based organizations

CONTACT

Pedro de Vasconcelos
Programme Coordinator, Financing Facility for Remittances
Technical Advisory Division
IFAD
Tel: +39 06 54592012
E-mail: remittances@ifad.org

LINKS

Financing Facility for Remittances
www.ifad.org/remittances/

Sending money home (booklet)
www.ifad.org/events/remittances/maps/brochure.pdf

Sending money home (video documentary on remittances worldwide)
www.ifad.org/media/video/index.htm

"Remittances: spreading the benefits"
www.ifad.org/newsletter/update/2/2.htm

Cash flow fever (video documentary on remittances in El Salvador)
www.ruralpovertyportal.org/english/regions/americas/voices.htm

Consultative Group to Assist the Poor – Microfinance Gateway
www.microfinancegateway.org

European Commission – Migration and Asylum page
http://ec.europa.eu/europeaid/where/worldwide/migration-asylum/index_en.htm

Ministry of Finance of the Grand Duchy of Luxembourg
www.fi.etat.lu

Ministry of Foreign Affairs and Cooperation of the Kingdom of Spain
www.mae.es

Multilateral Investment Fund – Remittances page
www.iadb.org/mif/subtopic.cfm?language=English&parid=5&topic=&subtopic=REMS/

United Nations Capital Development Fund – Microfinance page
www.uncdf.org/english/microfinance/

IFAD

IFAD is an international financial institution and a specialized United Nations agency dedicated to eradicating poverty and hunger in rural areas of developing countries.

International Fund for Agricultural Development
Via Paolo di Dono, 44
00142 Rome, Italy
Tel: +39 06 54591
Fax: +39 06 5043463
E-mail: ifad@ifad.org
www.ifad.org, www.ruralpovertyportal.org

October 2009