Remittances and Inclusive Economic Growth

A Presentation of

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to the

Global Expert Meeting on Migration
in the Post-2015 Sustainable Development Agenda

Dhaka 28-29 April 2014

Session I – Migration and Economic Growth

Remittances has increased the capacity of migrants and their families to move out of poverty and improve their lives: put more nutritious food on the table, secure the family in better houses, send children to school, enable more access to health services.

To make remittances contribute to development that is inclusive and sustainable continues to be a challenge especially because remittances are private monies that go straight to the pockets of migrants and families left-behind.

One of the positive outcomes of the financial crisis and the Arab spring was to make many migrants realize that economic downturns also happen in developed countries. This has drawn them to be more observant and to learn more and quickly about factors and dynamics that cause economic volatility in the countries of destination and in their own countries. That it is not just a personal decision to move or to stay rather it is a complex combination of personal desire and factors in economy and politics.

The development links of migration, e.g. remittances, philanthropy, savings, investment, entrepreneurship, are interconnected and often in a chain, value chain if you like. In this presentation I would like to focus on remittances: savings, investment and entrepreneurship as a chain of actions that lead to development. Studies and reality show that migrants can and do save. Many of them become investors and there are those who graduate to become entrepreneurs in their own right. The moment to increase migrants' capacity and their resources to bear on development that is sustainable and inclusive has never been more excellent as today. What should be done:

✓ **Increase the capacity of migrants to save**

It been proven that migrants can and do save. There is sufficient disposable income to set aside for savings. How can savings be enhanced?

- Reduce the cost of migration – regulatory measures on recruitment fees and processes.
- Reduce the cost of basic needs – the top three uses of remittances are food, shelter and education. Housing and shelter is one of the basic and large expenses of migrants. This is particularly true to origin countries where housing deficits are huge. The Philippines is a good

case to cite. Having a built a house from overseas work is a measure of success for Filipino migrants. Education is another expense that could be reduced.

- Make savings an attractive proposition: banks and financial intermediaries can offer savings package with preferential interest rates, a hedge fund or higher exchange rates.
- Financial literacy among migrants and their families, proper budgeting, controlled spending and financial planning.
- Regularize status of migrants – those who have regular status have more access to banks and other financial institutions. Migration should not be a “cat and mouse” game where migrants “earn and run”.

✓ **Increase and enhance investments**

There is tremendous investment potential from remittances. Investing 1% of the US$500 billion remittances easily translates into US$5 billion in local capital. Domestic investments, according to economists, should be through savings rather than debt.

- Enabling policy and business environment for migrant investments

Investments by migrants, on the other hand, form only a small part of remittances and are invested mostly in micro-enterprises (sari-sari stores mainly), farm lands, and service related business. A rentier economy creates a rentier mindset. Thus in Philippines, migrants usually put their money in building apartments, boarding houses, or condominiums.

Lack of confidence in government and the economy is a strong deterrent for migrants to invest in production and manufacturing. Both policy and business environment are not migrant friendly and supportive.

✓ **Entrepreneurial literacy and entrepreneurship**

Only recently, in the last decade that entrepreneurship was introduced and gaining ground. However, there is a low confidence level in entrepreneurial endeavours among Filipinos.

In our study of migrants-households in Davao City, southern Philippines revealed many barriers encountered by migrant entrepreneurs. Other migrants have cited similar barriers:

- Access to financing and related financial support: The small start-up capital of migrants can be supported by soft loans and better still social/venture capital Preferential treatment to migrant investments and enterprises, e.g. tax holidays, etc.
- Access to technology: Government should leave technology access and development to private sector but make them accessible to migrants and other micro and small enterprises.
- Infrastructure support: electricity, transport especially in a country that archipelagic, moving raw and finished goods within and overseas can be a major deterrent for investors and entrepreneurs.
- Access to markets –

- <u>Women responsive entrepreneurial training</u> - Women migrants and women in families left-behind should be specifically targeted. They need and many are into savings and financial planning.

Enterprises with high value added such as manufacturing and agri-business and those that generate more jobs can certainly help to reduce poverty and to build the "missing middle" especially in rural areas. A friendly business environment can encourage micro-enterprises to scale up to small and medium enterprises. The case of Philippines is instructive. While we received US$25.1 billion in 2013, the number of poor households in the country increased. Consider this: 92% of all businesses are micro-enterprises, 0.3% only belong to large enterprises, SME account for less 8%. Migration should have not only a poverty reducing impact but a democratizing effect on the economy by helping build the economic advantage of migrants – remittances and other assets.

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