Forum: General Assembly 2nd Committee

Issue: Strengthening the national economy of countries dependent on migrant workers remittances

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Introduction

According to The World Bank (21/4/17), remittance flows to developing countries reached a total of 429 billion dollars in 2016. However in 2001, 15 years earlier, the amount did not even reach 100 billion. Currently more people are living away from their home nations than ever, both in raw numbers and as a percentage of total world population, said group includes people who migrate to get a job. Often times these people have a family to maintain overseas and send a part of their salary to them. The family may then send a child to school, build a house, or buy food to sustain themselves.

These remittances can often have an immense impact on a community. According to Gumisai Mutume, "[in the] Kayes region of Mali (...) contributions from Malians living in France have helped build 60 per cent of the infrastructure" (10/2005, paragraph 2).

Intuitively one would say that while one country gains money, the country from which the money is sent loses money and thus, gets the short end of the stick in this deal. However this is not correct. As an example let's use the United States of America and Mexico since it is has the highest number of remittances sent. There are 11.7 million mexican immigrants in the United States of America which sent a total of 24 billion dollars to their homes in 2015, however, while the US lost 24 billion dollars in "cash", it also gaines that money's worth on services (Sandefur, J. 13/4/2016, paragraph 6).

According to Justin Sandefur, a development economist, "If families in Mexico use those dollars to buy things made in Mexico or elsewhere, then America has essentially gotten immigrants' services without paying anything tangible in return. If, on the other hand, families in Mexico use their remittances to buy things made in the United States, then American exports increase. Either way, the American economy wins". So we can see that both parties benefit, the country which receives the money gains, and the country from which the money is sent also benefits.

A big problem when it comes to remittances is how much of it is unrecorded and off-the-books, rather than being sent through money transfers or banks. Unrecorded remittances amount between 50% and 250% of the amount of recorded remittances (Freund, C. & Spatafora, N. 2005, page 2). In some regions like Sub Saharan Africa the majority of remittances are sent informally (over 70% of remittances from France to Comoros, Mali and Senegal)(Freund, C. & Spatafora, N. 2005, page 27); whilst in other regions, like latin America, they are mostly sent formally (only 15% to 20% of total remittances in El Salvador are unrecorded) (Freund, C. & Spatafora, N. 2005, page 25).

Definition of key terms

Remittance

In this contexts it is a sum of money sent by migrant workers towards their home country, usually towards their family.

Formal/official money transfer

It is when money is sent through a completely legal and official mean, usually banks or other tax-abiding systems.

However, the drawback is that they often take a noticeable percentage of the sum transferred. Sometimes, people don't trust that their money will reach their families due to corruption in the banking system. Or sometimes they are undocumented immigrants, so they can't have a bank account.

Nevertheless, they offer benefits such as easy traceability, and, if the system works well, less money will be lost.

Informal/unofficial money transfer

It is when money is not sent through regulated banks, but rather, through third parties which do not report their activity to their state, and don't pay taxes.

Since they don't pay taxes, they may appear to be cheaper than official money transfer systems, making them more appealing. However, they are unreliable since, while they charge less, sometimes the money can be lost and nobody can be held legally accountable.

Remittance corridors

When money is sent from a country and received in another country, that is called a "corridor". So a corridor is a pair of countries that follows the aforementioned definition.

Background Information

There are multiple reasons individuals may prefer informal means of transfer, such as the person not having proper documentation, and the higher exchange rate. Unlike other issues, a big problem is a lack of awareness: "Many African countries have no data on the nature or amount of flows they get. According to the World Bank, less than two-thirds of African countries report remittances" (Mutume, 2005, paragraph 6).

When the remittances are sent and converted to national currency through non-official channels the receiving country loses. This is because the value of the national currency of a country often depends on supply and demand for that currency. If a lot of people buy the Euro its value will rise relative to other currencies, but if a lot of people are selling it its value will decrease relative to other currencies. So, when people send money through unofficial channels they are helping devalue their "native" currency.

Money lost in the process

The people who send money through unofficial means are not selfish. The fee for sending money from america to sub-saharan africa is around 10% on average, while the fee for a transfer to europe is around 7% (Kopf, 9/5/2018). According to Dr Ismail Ahmed, compliance adviser to the United Nations Remittance Programme, "[in certain conditions] as much as 70% of the total transaction can be lost [...] on average, a transfer of $200 to sub-Saharan Africa loses $25, or 12% of the total transaction [...] many sub-Saharan migrants send much smaller amounts than $200 on a regular basis and so lose a much higher percentage of the payment" (Ahmed, 8/5/14, paragraph 4).

One of the reasons the money transfer is taxed so much is because of investigation. Regulations are in place with the purpose of ensuring that the money does not go towards terrorist organizations or towards money laundering. However this also makes it more expensive for people to legally receive the money, “Making these regulations less onerous would be worth the risks—particularly for transactions of small amounts” (Kopf).

Additionally, in many african nations the “national post office has an exclusive partnership with one money transfer operator” (Kopf). In rural areas the post office can be the only place citizens have to retrieve the money, hence there is often an unrivaled monopoly; and, without competition the prices rise.

Discrimination against migrants

As it has been previously mentioned, it is often hard for migrants to send money back home because they may lack evidence of formal employment, official identification, and proof of residence. According to the Pew Research Center there were 10.7 Million unauthorized immigrants in the U.S. in 2016 (Krogstad, J, 28/11/2018, paragraph 3). In the U.S. alone estimates for the amount of remittances sent by undocumented immigrants range from 7 million to 20 million (Mutume, G.).

Solving this problem is not easy. Lowering the regulations for sending money abroad can have detrimental effects by easing money laundering and terrorism funding. Lowering the regulations just for smaller sums of money can be done even though it's risky, or the state could accept those immigrants as citizens. However, due to many reasons a state may prefer not to allow undocumented immigrants to gain temporary citizenship.

Lack of people in and distrust of the banking system

About 66% of people in Sub-Saharan Africa do not have a Bank Account (Elixirr, 9/6/2017, paragraph 4), compared to a small 7% in the U.S. (Farber, M, 8/9/2016, paragraph 1). This is due to “The small size of national markets, a lack of financial literacy, low income levels, political instability and weak judicial systems” (Elixirr). In an investigation of a focus group done by Elixirr it was reported that people “*distrust* banks” and “wary to use ATMs or online banking platforms as they were afraid that their money would not reach the recipient”.

This is not paranoia due to a lack of education, common sense, or digital literacy. Nigeria’s banking industry has a long history filled with failures: “1930 when the Industrial and Commercial Bank failed. Thereafter, the Nigerian Mercantile Bank failed in 1936 while the Nigerian Penny Bank failed in 1946 [...] 21 out of the 25 indigenous banks that were established collapsed in quick succession due to bad management, inadequate capital, inexperienced personnel, excessive branch expansion, lack of banking regulation and unfair competition from foreign banks [...] fraud, lack of acceptable prudential guideline and lack of right banking orientation among the operators" (Olukotun, G et al, 2013, pag 3). Decades later there was a boom in banking, "By 1994, there were 752 registered finance houses, 879 community banks, 252 primary mortgage institutions and 271 people's bank branches in Nigeria [which] resulted in increased and unhealthy competition in the industry, the discarding of all norms of prudent banking and the emergence of other destabilizing factors" (Olukotun, G et al, 2013, pag 3).

However in 1988 the Nigerian government opened the Nigerian Deposit Insurance Corporation, which was supposed to help depositors in case of bank failure. After 4 mandates it achieved its objective of protecting depositor' funds, and the people's trust in the banking system has been slowly rising ever since, perhaps because the NDIC pays for the deposits of both insured depositors and uninsured depositors (Olukotun, G et al, 2013, pag 10).

Countries most dependent on remittances

In 2014 **India, China, Philippines, Mexico, France, Egypt, Nigeria, Pakistan, Germany, Bangladesh** were the 10 countries which received the highest amount of money in remittances in that order (KNOMAD, 2016, page 13). While the top remittance receivers in proportion to their gdp were **Tajikistan, Kyrgyz Republic, Nepal, Tonga, Moldova, Liberia, Bermuda, Haiti, Comoros, and Republic of the Gambia** (KNOMAD, 2016, page 14).

Obviously these countries (especially the ones which are top 10 as percentage of gdp) will have the highest investment in the debate, since they are the primary benefits of the resolution. Their intention should be to help remittances become as efficient as possible to maximise the impact they already have in their nation.

Countries which send the most money in remittances

United States, Saudi Arabia, Russia, Switzerland, Germany, United Arab Emirates, Kuwait, France, Luxembourg, and United Kingdom are the 10 countries which send the most money in the form of remittances. While Remittances do not hurt their economy, they may not embrace all the measurements proposed in resolutions.

For example, they may oppose having undocumented immigrants have possibility of sending money home undetected. Or may be afraid loosening the restrictions for transfers may increase the level of money laundering overseas. This is further discussed in the “Possible Solutions” section.

Major Countries and Organizations involved

United States of America

The US is currently the largest source of remittances of the world, which, by default, would make it a major party in the debate. However, ever since the events of September 11 of 2001, the US has implemented some security measures as part of the Patriot Act. While the intentions of these measures are to make it harder for terrorist groups overseas to obtain financiation, and to halt money laundering operations, it also makes it harder for migrants to send money home.

Which was further expanded by the The Real ID Act of 2005, which made it harder for immigrants to participate take part in many “official” activities, such as getting a drivers-licence, which may be used as an identification for sending money home.

With how the current American President has approached relations with Mexico in the past (suggesting to build a wall), it is clear the US has no intention of making it easier for Mexican migrants in the US in the foreseeable future.

France

The amount of money sent from France in the form of remittances has been increasing for the last decades, with the main corridors being with Northern African countries. At the same time, the cost of sending remittances has been decreasing. And, aware of the social impact remittances have, the french government created the “2015 Country plan for reducing remittance transfer costs”, which aimed to reduce transfer costs, enhance the impact of remittances, and asses with more precision the amount of money that is sent (G20 National Remittance Plans, 2015).

Timeline of events

Date	Description of event

February 1st 1901	The legge n°24 is passed in Italy. The first recorded law that regulates remittances (Moré, 1/2010, paragraph 2).
1997	World Bank staff estimates that on 1997 the amount of personal remittances received worldwide surpassed 100 000 million current US dollars (The World Bank, nd)
June 8th 2004	The G8 gathered at the Sea Island Summit and decided to help lower the cost of remittances, increasing their efficiency (University of Toronto, 9/6/2004, paragraph 4).
September 2008	The World Bank established the first international database of remittance prices to help keep track of activity in remittance "corridors" .
2008	World Bank data shows that on 2008 the amount of personal remittances received worldwide surpassed 400 000 million current US dollars (The World Bank, nd)
January 2012	Azimo, an app designed for monetary transactions is created. It charges less than banks and it was recognized as the best money saving app by The Guardian in 2013 (Lunn & Collison, 12/4/2013, paragraph 2). Many other apps have been created by this point as well, with similar objectives to Azimo´s.

Relevant UN Treaties and Events

- 17 August 2015, A/RES/69/313
  - "We will work towards reducing the average transaction cost of migrant remittances by 2030 to less than 3 percent of the amount transferred (...) no remittance corridor requires charges higher than 5 per cent by 2030"
- 21 October 2015, A/RES/70/1
  - One of the clauses mentioned at the time of achieving the 2030 sustainable development goals was to reduce inequality within and among countries. One of the suggested ways (10.c) of doing this was to "reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent"

- 23 January 2017, A/RES/71/237
  - Clauses 15-18 are about remittances:
    - Lowering the cost of remittances
    - Acknowledging their importance
- 18 June 2018, A/RES/72/281
  - Established June the 16th as the International Day of Family Remittances in order to bring attention to their importance

Previous attempts of solving the issues

Money transfer apps

Nowadays there are multiple money transfer apps in the market. These apps can be very helpful since they already reach millions of people, and have many advantages over traditional banking systems.

Firstly, the lack of human intervention reduces the chances that widespread corruption takes place, which is an important point in places like sub-saharan Africa, which have suffered from corruption in the banking system for as long as they have existed (more information in the sub-section “Lack of people in and distrust of the banking system”, inside the section “background information”).

As it is further developed in the “possible solutions” section, mobile phones in Africa have become widespread, much more than landline internet or banking. One of the advantages of Apps is that they can be accessed by anyone as long as they have internet coverage. “For more than half of rural Kenyans, the nearest bank branch requires at least half an hour of travel time, with the risk of theft along the way. Getting to the bank is expensive, too: about half a day’s average wages for more than a third of rural Kenyans” (Bank4YOU group, 20/4/2018, paragraph 6), hence having access to money transfer mechanism within one´s pocket is a huge improvement for many people.

While there are many money transfer apps in the market, some cater specifically to workers remittances, one of them is Azimo. “Azimo is similar to TransferWise and WorldRemit, but focusses on an often overlooked demographic: migrants with very low incomes” (Solon, 23/6/2016, paragraph 1), Azimo offers a lower transfer fee, ensuring more of the money sent reaches the sender´s family and friends.

Keeping track of the money sent

In 2008 the World Bank created The Remittance Prices Worldwide Database which keeps track of over 200 corridors (48 sending countries and 105 receiving countries), their fees, exchange rate margins, costs, firm, access points, and other information (The World Bank, nd2, paragraph 2). However, due to the fact that a lot of remittances are sent through informal channels, The World Bank doesn't account for nearly all remittances sent. Additionally, while a lot of important corridors (such as USA-MEXICO) are included, not all corridors are. Still, for the very first Database it is very successful.

Possible Solutions

Awareness

Awareness campaigns are present in most MUN resolutions, this issue is no exception. But, unlike some other cases, in this situation one is needed. More research needs to be done so the numbers are clearer, since many african nations do not have precise data regarding undocumented remittances, and some don't even report remittances at all (Musume, 2005, paragraph 17).

For this issue to be treated with the importance it deserves countries need to be conscious of how big the impact remittances have in their economy is.

Promoting migration

Emigration is often seen as a negative when it comes to global issues, since a lot of people, some of them incredibly capable, are producing money in another country rather than their native one. Additionally there is the concept of the Human Capital Flight, the home country spen resources educating the individual for him/her to produce money in another country. The World Bank's PRSP (Poverty Reduction Strategy Papers) review states that, where economic migration is brought up, “it is seen as a negative,” (Mutume, G.).

Many countries (with exceptions like Cape Verde and Senegal) see the people fleeing as a loss, rather than a source of revenue. Which is unfortunate seeing how much potential for development remittances bring.

Formalizing remittance

Most of the other solutions discussed are about this one way or another. Due to immigrants sending the money through informal means, a lot of money is often lost. Additionally formalizing them will help gather appropriate data about remittances.

Improving the banking system

As it has been previously stated, one of the causes of money getting lost is the inefficient unofficial systems being used. This is detrimental to the effectiveness of the remittances sent. African member states may opt to make their banking systems more appealing by:

- Reducing transfer costs; if desired only to small amounts of money, Preferably below 5% ("if transaction costs were lowered even by 5 per cent, remittances to developing countries would increase by $3.5 bn a year" (Mutume, G. 10/2005, paragraph 24)).
- Ending the exclusive partnerships between public post offices and money transfer operators, thus creating competition, lowering the costs, and improving the quality of the services. Or by artificially setting a limit to the costs, perhaps based on the median wage or any other metric desired.
- Expanding the reach of the banking system, especially towards less developed areas, to reduce travel times

However, a much harder issue to solve regarding banking in Africa is the distrust people have. Which can be done by installing more banking regulations that help the customer in case the bank fails. And, once introduced, using marketing techniques to increase trust in banking.

Promoting monetary social inclusion

On a related note, by involving the population in an official banking system, it will become necessary for those people to gain financial literacy. This will also help people make the most about remittances, by teaching them about concepts like investing and saving.

However, this is also important to ensure uneducated people are not taken advantage of by con-artists.

This is harder to achieve than what it would appear. For example, one may be tempted to include finances as a subject in the final years of high school, however, not everyone finishes high school and most adults would be left out. Creating public seminars may sound good too, but some people don't have the time of resources to attend. A final suggestion would be to create online course, but, once again, not everybody has the resources needed to win. of course multiple plans may be implemented simultaneously, however this may be a hard issue to solve.

One benefit of educating people is that Member States can persuade them to invest in infrastructure and other projects (building a house, getting their children to school), helping the development of underdeveloped areas, and making the most out of the remittances.

Electronic money transfer and Cryptocurrencies

While most African countries nowadays have very few citizens (less than 6%) with access to landline. Mobile phones are a different story. 80% of the African interviewed on average stated that they have a phone. 15% are smartphones while the other 65% are not. It is clear that mobile phones are going to become even more common in Africa (Pew Research Center, 15/4/2015).

With the increase access to the web the use of cryptocurrencies seems like a semi-viable long-term strategy. Currently Cryptocurrencies are a new technology, people leaving in LEDC who may already be skeptical of the Banking System may be afraid of adopting this new technology.

While Bitcoin allows money transfer without any fee, turning it into local money may include a fee of around 1%. Additionally it does not rely on any network, so anyone with a usable internet connection can access the transfers.

However, it is not a flawless solution. Exchanging Bitcoins for local money officially can only be done in specific places, which may be hard to reach for people living in rural areas. Additionally Bitcoin still has limited reach and usage since its a new phenomenon.

Nevertheless this is actually a positive, since it allows us to create a detailed long term plan from the get-go, rather than having africa catch-up.

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