

POLICY BRIEF

# How to Channel Remittances for Economic Growth



Migrant workers from Asian countries have the potential to significantly contribute to their countries' economic growth.

Photo Credit: Lester Ledesma/ADB.

*While remittances from migrant workers continue to increase, they can only fuel economic growth if they enter the formal financial system and be channeled into productive investments.*

## Introduction

From 2005 to 2013, remittances from migrant workers nearly tripled from \$92 billion to \$246 billion in the Asian Development Bank's developing member countries (DMCs). These remittances helped reduce poverty levels, mostly through increased spending on food and other essential items including housing and education. This was especially evident in Bangladesh, Indonesia, and Viet Nam, where poverty levels dropped by 1.5%, 5%, and 2%, respectively, over the 2000-2005 period.

However, remittances can only drive economic growth if they enter the formal financial system, which then channels the money into public and private investments.

As it is, an estimated 75% of the total remittances to DMCs are channeled through informal channels such as money transfers and remittances brought home by friends and relatives. This is due to a

combination of factors, including limited financial sector development, regulatory barriers, limited financial literacy, and poor market competition.

With little or no support from the public sector or from donor agencies to address these issues, remittances may not lead to significant inclusive and sustainable economic growth in recipient countries. This, in turn, will make it difficult for the government to generate domestic opportunities for workers so they do not need to seek employment in other countries.

"If a country has a good policy environment and well-functioning financial system, remittances can increase private credit and promote private sector growth," ADB President Takehiko Nakao said at the ADB International Forum on Promoting Remittances for Development Finance held in Manila in March 2015.<sup>1</sup>

To make productive use of remittances, ADB assists in enhancing payment systems, promoting financial literacy, and supporting innovative financial products that cater to the needs of the remittance beneficiaries and of the recipient countries themselves.

<sup>1</sup>Inauguration speech of ADB President Takehiko Nakao at the ADB International Forum on Promoting Remittances for Development Finance, 18 March 2015.

## Policy Options



For remittances to be channeled toward economic growth, policy makers need to:

**Raise financial literacy**

Households spend most of the remittances that they receive. In Bangladesh, 84% of remittances are

spent, and only 14% is saved. The low rate of savings is mainly due to high transaction costs (such as fees to open a bank account), lack of trust in financial institutions, and regulatory barriers (such as official identification documents that many poor people lack), among other factors. Studies suggest that providing financial education could help households save more and these savings, in turn, can be placed into the formal financial system to generate economic activity.

## Expand digital finance

To channel remittances into investments, access to formal financial services must be expanded. One of the ways to attract remittances to the formal financial system is through digital finance. For example, only 15% of the population in Bangladesh have access to banks, but 60% have mobile phones. BRAC Bank, a private commercial bank in Bangladesh that caters to small and medium enterprises, offers a mobile-based banking service called "bKash" that now has 15 million registered customers and average daily transactions of \$26 million.

## Promote remittance-linked capital market instruments

Capital market instruments could capture remittances for investments on a national level. One such instrument is the so-called "diaspora bond"—a type of government debt that targets members of their national communities abroad—which is an important source of funding for governments that have a large number of overseas nationals.<sup>1</sup> Among those that have successfully issued diaspora bonds are the governments of India, which raised a total of \$32 billion, and African countries such as Ethiopia, Ghana, Kenya and Nigeria, which have issued sovereign bonds targeting nonresident nationals willing to contribute part of their savings to their home countries. To tap diaspora investments, countries should develop the right infrastructure, establish marketing and distribution channels, and build long-term relationships with targeted investors.

<sup>1</sup> Mayumi Ozaki, Asian Development Blog, "Asia could use diaspora bonds to finance development," 27 May 2016.

# Recommendations

For remittances to benefit the real economy, the public and the private sectors, with the help of multilateral development organizations such as ADB and financial institutions, must mount a concerted effort in addressing these key areas that could contribute to sustainable job creation at home and lessen the need for workers to migrate:

- Promote financial education for migrant workers before they go abroad.
- Support the development of digital finance through the development of financial technology, such as core banking systems, e-payment, and networks.
- Help develop enabling legal and regulatory frameworks for remittance securitization and diaspora bonds.
- Create a vision of how to leverage remittances to develop viable local industries that generate local employment and income-generating opportunities.

# Resources

The policy brief was based on an article written by ADB financial sector specialist Mayumi Ozaki for the *Financial Inclusion Newsletter Issue No. 5*. The newsletter was published under the Financial Sector Development Community of Practice to promote ADB's financial sector development operations, implement the FSD agenda of Strategy 2020, and strengthen knowledge sharing in the financial sector.

[How diaspora bonds work](#)

[How Asia uses diaspora bonds to finance development](#)

[Video on Diaspora Bonds and Remittances for Development](#)

[Inauguration speech of ADB President Takehiko Nakao at the ADB International Forum on Promoting Remittances for Development Finance](#)



**Mayumi Ozaki**

Senior Portfolio Management Specialist, South Asia Department, Asian Development Bank

Mayumi Ozaki is a financial sector specialist at ADB who covers a range of financial topics, including microfinance, financial inclusion, branchless banking, financial education, and banking sector reforms. Prior to joining ADB, she was an evaluation officer at the International Fund for Agricultural Development, in Rome, Italy. She has also worked in Bangladesh, India, Indonesia, the Maldives, Myanmar, Nepal, and Sri Lanka.

---

Last updated: September 2016