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Follow-up to and implementation of the outcome of the International Conference on Financing for Development

Economic and Social Council
Substantive session of 2005
29 June-27 July 2005
Special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development

Letter dated 23 February 2005 from the Permanent Representatives of Brazil, Chile, France, Germany and Spain to the United Nations addressed to the Secretary-General

It is our pleasure to inform you that a meeting of the Technical Group on Innovative Financial Mechanisms, established pursuant to the Geneva Declaration on Action against Hunger and Poverty, was convened at the Ministry of Foreign Relations of Brazil on 10 and 11 February 2005. High representatives of Brazil, France, Chile, Spain and Germany, as well as Mr. Oscar de Rojas, your special envoy, attended the meeting. The members of the Group met with President Luis Inácio Lula da Silva and with Ambassador Celso Amorim, Minister of External Relations of Brazil. Germany participated for the first time since the establishment of the Group.

The purpose of the meeting was to follow up on efforts to identify innovative sources of financing for development and for the fight against hunger and poverty, as set out at the Summit of World Leaders for Action against Hunger and Poverty, which took place in September 2004 at United Nations Headquarters in New York. The members of the Group underlined the importance of the year 2005, when decisions made will determine the shape of the aid development system for years to come as well as the capacity to achieve the Millennium Development Goals at the global level.

The members of the Group meeting in Brasilia discussed ways and means to move the process forward. They confirmed the need for more resources and, in that context, the need for new and additional resources and for new approaches to development finance, with greater stability and predictability.

The Technical Group considered a menu of options that could be presented to High-level Plenary Meeting of the sixtieth session of the General Assembly: the facilitation of remittances by emigrants; mechanisms of taxation, or solidarity levies, applied nationally and coordinated internationally; allocation of special drawing rights for development purposes; and voluntary contributions. Other mechanisms are still under consideration by the Group. The members of the Group believe that they now have the elements for an action plan that could include pilot projects.

We have the honour to forward to you the joint statement adopted in Brasilia (see annex I), as well as a working document on proposed facilitating measures on remittances (see annex II), which we kindly request to be circulated as United Nations documents. Our Governments hope that the views and proposals contained therein, based on the New York Declaration on Action against Hunger and Poverty, supported by more than 110 countries, will be reflected in the comprehensive report to be submitted by you, in March, as per General Assembly resolution 58/291, which will serve as the basis for the consultations leading to the High-level Plenary Meeting. Our five countries attach utmost importance to this crucial report and expect that it will reflect, in a forward-looking manner, the integration between the issues of international peace and security, on the one hand, and the issues of financing for development and the fight against hunger and poverty, on the other.

(*Signed*) Ronaldo Mota **Sardenberg**
Ambassador
Permanent Representative of Brazil to the United Nations

(*Signed*) Heraldo **Muñoz**
Ambassador
Permanent Representative of Chile to the United Nations

(*Signed*) Jean-Marc **de la Sablière**
Ambassador
Permanent Representative of France to the United Nations

(*Signed*) Gunter **Pleuger**
Ambassador
Permanent Representative of Germany to the United Nations

(*Signed*) Juan Antonio **Yáñez-Barnuevo**
Ambassador
Permanent Representative of Spain to the United Nations

Annexes to the letter dated 23 February 2005 from the Permanent Representatives of Brazil, Chile, France, Germany and Spain to the United Nations addressed to the Secretary-General

Annex I

Joint statement adopted in Brasilia on 11 February 2005 by Brazil, Chile, France, Germany and Spain

Our countries are united in the fight against hunger and poverty. They have decided to work together for the achievement of the Millennium Development Goals. In the present situation, there is a significant risk that those goals will not be reached. Consensus runs deep that current aid levels will not suffice to finance the Millenium Development Goals.

The year 2005 is a turning point. Decisions made will determine the shape of the aid development system for the years to come. The stakes are high: either we come out of this process with a renewed and strengthened financing system for fighting poverty; or we will, in fact, have given up on achieving the MDGs. The meeting on September 20, 2004 held under the leadership of President Lula has been a decisive step. A declaration adopted by 111 countries has welcomed the ideas and proposals put forward in the Report of the Technical Group on Innovative Financing Mechanisms.

In this joint statement we want to move the process further and focus on how to finance the MDGs. We strongly hope that we can be joined, in this endeavor, by all those countries and institutions which share our objectives and our ambitions.

the need for more resources

To reach the MDGs, United Nations and World Bank's estimates indicate the need to increase the amount of aid currently available in the order of US$ 50 billion per year. This is equivalent to less than 5% of the additional income worldwide.

New resources for fighting poverty may come through a variety of channels.

1 – T*rade*. For developing countries, trade is a major driver in bringing additional resources. Therefore trade liberalization is crucial to global economic growth and poverty reduction. The Doha Round should deliver substantial benefits to developing countries. We encourage both developed and developing countries to play an active role in the negotiations to ensure that an ambitious outcome is achieved.

2 – G*reater domestic resource mobilization* in developing countries is a necessity. It can be achieved both through an improvement in tax collection and a reduction in tax evasion. Given its global nature, tax evasion must be dealt with in the context of strengthening international cooperation in tax matters. There must be no relaxation of efforts currently underway. If the expected results fail to materialize, States engaged in this process should consider taking coordinated defensive measures, particularly fiscal measures.

3 - Remittances play a crucial role in the economy of recipient countries, since they provide for a stable source of financing, bring foreign exchange with no liabilities and complement national savings, thereby constituting an important basis for capital accumulation. Developing countries are the main beneficiaries of remittances, accounting for 65% of all inflows. For those countries as a whole, remittances represent the second most important source of capital –surpassing ODA flows. Reducing the cost of remittances is therefore an urgent priority.

4 – Whatever efforts are made to mobilize domestic resources and increase remittances, ODA will remain an essential component of any development strategy, especially for the poorest countries. It is widely recognized that a *significant increase in official transfers is a precondition for meeting the target* of halving extreme world poverty by 2015. We therefore call on all developed countries to strive to reach an ODA level of 0.7% of GDP, a target that some of them have already adopted or reached. Such a collective undertaking would give a significant impulse and enormous credibility to the commitments made when the MDGs where adopted, five years ago.

the need for different resources and new approaches to development finance

Not only do we need more resources. We also need new types of resources. For the financing of development and the achievement of the MDGs, quality of aid is as important as its quantity.

- we strongly believe that the lack of stability and predictability in aid and financing flows is a major impediment to the fight against poverty :
    - stability is necessary to ensure that programs aimed a human development (education, health) can be undertaken on a long term basis, which is a condition of their efficiency
    - stability is necessary in those high risk situations where only sustained efforts can bring results and improvements (post conflict environments and failed states)
    - finally, stability is a precondition for the financing of the fight against hunger and poverty.
- the supply of more predictable flows is, by itself a truly public good. It will help answering the debate on absorption capacity. There is a strong endogeneity there: if aid flows were more stable, they could be absorbed and administered more effectively, and in larger amounts.
- we also believe that greater stability can only come as a result of significant evolutions in the way development financing is mobilized. Only through a modification in the overall aid architecture can we obtain a different mix of resources for those programs absolutely essential to the financing of human development.

  This is the rationale behind the search for innovative sources of financing for which we propose that the international community agrees on the following framework.

a menu of options

Our objective for the September UN General Assembly should be to come to an agreement to increase the quantity and improve the quality of aid. The amount of 50 billion dollars of additional resources could be set as a target by the international community, and a full menu of options to reach it could be put forward.

- *voluntary contributions*. Private philanthropy, both by individual households and foundations mobilize considerable amounts of money, with only a small fraction of it going to development financing and the international fight against poverty. Better information could help and bring inflexion in those flows. New instruments should also be put into place, such as global affinity cards, socially responsible investment funds, as well as experiences to use stock exchange infrastructures to mobilize additional private contribution to the fight against poverty that have already been undertaken by the São Paulo Stock Exchange (BOVESPA).

- *enhanced voluntary contributions*. The experience of the Tsunami has shown that there are huge reserves of generosity and altruism available when people are directly made aware of the needs and use of their contributions. The challenge is to transform this very positive movement into a more permanent dynamic. Governments could help in this regard, by creating the appropriate incentives, either through tax measures or matching funds. If those incentives were to be coordinated amongst nations in a coherent and visible framework, they would send a very powerful signal to donors about their international priorities. It would also provide significant help to fund raising efforts by development oriented NGOs.

- *Remittances.* Multiple initiatives have been undertaken both on a national and multilateral basis during the recent years to facilitate remittances flows. A step further, however, might be necessary. One could consider the possibility of unifying all initiatives in the context of a multilateral understanding that could galvanize political support and provide the necessary sense of urgency to the issue. In this regard, two possibilities could be considered: 1) the preparation of a resolution under the UNGA through which countries would commit themselves to a set of general principles and manifest their intention to pursue the negotiation of international agreements to facilitate remittances flows; 2) a framework agreement on remittances facilitation , also encompassing general principles, to be signed by all interested countries – in particular, with the participation of major source and recipient countries.

- *automatic budgetary contributions*. Governments currently finance international organizations through mandatory contributions based on explicit burden sharing rules and arrangements. Those mechanisms could also be used to finance those programs and global funds most directly involved in the fight against hunger and poverty and the implementation of the MDGs.

- *the International Finance Facility (IFF)*, as proposed by the British Government, has the potential to quickly mobilize additional resources to finance the MDGs by frontloading future flows in official development aid. It would bring a scaling up in financial transfers to poor countries, thus ensuring that human development programs are not constrained by the lack of financing. We strongly support pursuing the establishment of such a facility, including refinancing mechanisms.

- *The creation of international taxes as* an element in the development financing system. **These taxes should be nationally applied and internationally coordinated mechanisms.** These instruments are especially appropriate where the need for stability and predictability is greatest over a long period of time. They would bring continuity in development finance in the long run, which is necessary to ensure the viability of frontloading financing mechanisms. We strongly support pursuing these taxation mechanisms and we are determined to continue to build consensus on this issue.

  Among the formulas which should be considered are :

  - A domestically applied and internationally coordinated levy on international financial transactions This levy should be constructed in a way that does not impede on the efficiency and liquidity of financial markets. It would be levied at a very small rate and all necessary exemptions – such as market making activities – should be granted.

  - A domestically applied and internationally coordinated tax on arms purchases , levied on all heavy conventional weapons purchases

  - A domestically applied and internationally coordinated levy on air transport travels.

- **SDRs**. We reiterate our interest in further pursuing the proposals for new issuances of Special Drawing Rights (SDRs), as a mechanism for financing development. New issues of SDRs would increment the amount of resources currently available to the fight against hunger and poverty as well as address financial volatility and imbalances.

  - however necessary, the transformations in the aid architecture that we propose do not imply any changes in existing organizations or institutions. Proposals can and must be achieved within the existing framework of institutions and international legal arrangements, through a strengthening of intergovernmental cooperation.

  - while it is crucial that overall resources are mobilized in sufficient amounts, new financing mechanisms will only bring a partial contribution. It must be stressed again that they are no substitutes for increases in ODA. They should be concentrated on core actions and programs, where the need for stable and predictable resources is strongest and where priorities strongly converge between contributing countries.

  - even so, however, they can bring enormous and dramatic changes because stability in itself will improve the overall environment for growth and increase the efficiency of other sources of financing

- various schemes should not be seen as alternatives, but can be used and managed in a complementary and mutually reinforcing process. IFF would work best, for instance, if complemented by a system of international taxation which would ensure that future reimbursements will not impede on the capacity of participating countries to sustain their ODA effort.

elements for an action plan

Based on the principles and options described above, we believe the following approach should guide the international community:

- **universal participation** by all donor countries to the mechanisms described above, especially international taxation and the IFF, would be in the best interest of development, both in terms of volume and stability of the financing flows. It should be our ultimate goal in the search for appropriate financing of the MDGs.

- in the short run, however, progress can also be made through **a more differentiated approach**, using the full opportunities offered by the menu of options in a coordinated manner. It could work as follows :

    - a sufficient number of countries would agree on common objectives and programs to be pursued and jointly undertaken, thus avoiding distortion of competition.
    - they would agree on pooling their resources, set financing targets over a multi-year period and decide on a stable burden sharing (including, when available, contributions by the private sector)
    - they would agree to implement an international tax or fee to provide for the core financial resource for these purposes. However, those countries wishing not to implement such a mechanism immediately could choose to make their contributions either through other instruments amongst the options available or through fiscal transfers.
    - they would designate the (existing) institutions responsible for receiving the contributions and managing the programs.
    - countries would be ultimately responsible for making sure that funding effectively materializes : for instance, voluntary contributions or tax revenues, if insufficient to meet a country's share, could be supplemented by fiscal transfers up to amounts initially agreed upon.

pilot projects

While working on establishing the bases for an integrated approach along the lines described above, and, ultimately, creating financing schemes with universal participation, we believe that the launching of pilot projects in the next few months would both meet urgent needs and help to trigger a more broad based and general process.

We take note that pilot projects are currently under consideration, which, among others, the following have been identified as a field of work:

- one such a project aims at ensuring universal vaccination of children and is based on the Vaccine Fund. It would mobilize flows coming from the Bill and Melinda Gates Foundation as well as a pilot IFF mechanism.

- another would provide long term financing for the fight against AIDS through a small levy on air travel. Such a source of finance is absolutely necessary to provide both an incentive to private research on a future vaccine and create the conditions for poor countries to engage in long term programs of treatment.

Annex II

Working document on proposed facilitating measures on remittances

Background and suggested action plan for the quadripartite group

Overview – the benefits and economic importance of remittances

The total amount of remittances flows around the world has been increasing steadily over the past decades. In 1980, remittances reached US$ 15 billion, whereas in 2002 they totaled US$ 80 billion. Conservative estimates indicate that nowadays remittances flows have surpassed the astounding figure of US$ 100 billion per year. However, it must be underlined that estimations of remittances flows must be taken with great care as there is no consensus about the way they must be valued.

Developing countries are the main beneficiaries of remittances, accounting for 65% of all inflows. Statistics show that, in these countries, remittances represent the second most important source of capital – lagging behind only foreign direct investment and surpassing ODA flows. In 2002, remittances accounted for 1.3% of the GDP, 55.9% of foreign direct investment and 140% of aid flows in the developing world. In some Latin American countries, such as Haiti, Nicaragua, El Salvador, Jamaica, Dominican Republic and Guyana, remittances account for 10% of GPD. The importance of remittances relative to other capital flows varies considerably across receiving countries. In some Asian countries, remittances account for a relatively large share of total capital inflows (around 50%); in Ethiopia, by contrast, received US$ 1.3 billion in ODA as compared with US$ 33 million in official remittances. Such a figure indicates that, obviously enough, remittances cannot be seen as a substitute for other inflows, especially to ODA flows.

Remittances are relatively concentrated in a group of 20 developing countries, which stand for 80% of total world remittances. The largest recipient countries, as measured in absolute terms, are India, Mexico and The Philippines. If remittances are measured in terms of their share in the GDP, the largest recipient countries are Tonga, Lesotho and Jordan. The United States, Saudi Arabia and Germany are the major source countries.

It is important to mention, however, that since a considerable share of remittances is not channeled through formal venues, official statistics underestimate the actual scope and amount of remittances. Many developing countries do not count on accurate methods of remittances statistics. Also, some developed nations simply do not maintain any data on remittances.

Recent studies have shown that remittances play an important role in the economy of recipient countries, since they provide for a stable source of financing, bring foreign exchange with no liabilities and complement national savings, thereby constituting an important basis for capital accumulation. In addition, studies confirm that whereas remittances have been positively correlated to growth in host countries, they tend to be counter-cyclical in nature, as emigrants tend to send more money in times of economic downturn in their homelands. As a consequence, remittances act as an international mechanism of social protection based on private transfers.

Studies have also demonstrated that remittances are spent primarily in the financing of consumption – particularly in common expenses such as food, housing and utilities. However, experience suggests that remittances can also be used to foster development, mainly when channeled via the so-called Home Town Associations – institutions organized by emigrants in developed countries with the objective of directing private donations to the financing of development projects in local communities. In this regard, some studies point to the fact that remittances from the United Sates account for almost 1/5 of the capital invested in micro-enterprises in urban Mexico.

In any event, whether remittances are used for consumption or investments, they generate positive effects on the economy by stimulating GNP growth and allowing for further inflows of foreign currency. For instance, it is estimated that for every dollar Mexico receives from migrants abroad its GDP increases by US$ 2,69 to US$ 3,17. Since they entail a positive impact on economic growth and, at the same time, constitute an international network of social protection, remittances can play an important role as an instrument capable of overcoming poverty and improving life standards in developing nations. Recent analysis in 74 developing nations have concluded that an average 10% increase in the share of remittances in a country's GDP could allow for an 1.6% reduction in the number of people living on less than US$ 1 per day.

The market and the costs of remittances

In some countries, the mechanisms available in the market for the transfer of remittances have experienced great changes over the past few years. Improvements in market competition, technologic standards and transparency have resulted in a considerable drop in the costs of remittances' transfer. For instance, before 2000, the average fee charged on the transfer of money from the United States to Latin American countries averaged 15%, whereas nowadays these fees hover around 8%.

In many Sub-Saharian African countries, the situation is quite different as the bank system is not as developed as in Latin American countries, so that it is not always able to attract migrants who want to send money to their country.

That's why in Sub-Saharian African countries lowering the costs of remittances can't be considered as the sole, nor the main priority. Improved cooperation efforts are needed to foster the development of the banking system, on which further actions aimed at using remittances for development purposes should be undertaken.

However, there is widespread consensus on the fact that fees charged on the transfer of remittances are still very high and surpass by far the real costs incurred by the companies that provide the service. Charges on remittances are also much higher than costs associated with transfer of funds among developed countries.

In addition, average figures on remittances' costs mask the fact that fees can be much higher in some developing countries and vary according to the amount being transferred. Also, migrants often burden unfavorable exchange-rates, which represent an additional and hidden cost. The very high costs associated with the transfer of remittances stem from the inefficiencies in the market and the regulatory framework in which agents operate. To put it simply, the costs of financial intermediation are high mainly because of the oligopolistic nature of the market.

The bulk of remittances is channeled through money transfer operators (Western Union, Money Graw and Thomas Cook being the major players), which account for up to 70% of remittances transfers from the United States to Latin American countries. Other means used for the channeling of remittances are commercial banks, post offices, travel agencies and informal financial institutions. Informal methods are based on very little or no documentation, do not necessarily comply with international standards of accountability (including those referring to money laundering and tax evasion) and are often associated to a currency exchange bureau, import-export business or retail shops. Also, methods based on hand-delivery (including through couriers) still represent 17% of all transfers to Latin America and even more for transfers to African countries (estimated at half of the transfers to Mali for instance).

The phenomenon of hand-delivery is important in countries where the use of banks isn't widespread because of a lack of institutions, above all in remote areas. For those countries, the focal issue must be to develop the bank system or to find others kinds of institutions that can be used to channel and save money, such as post offices.

Apart from the oligopolistic characteristics of the market, high fees stem from governments' exchange-rate restrictions in receiving countries. Also, money transfer operators usually charge higher fees and offer less favorable exchange-rates in transfer operations than commercial banks. As a matter of fact, banks are reluctant to enter in the market for low-income emigrants that often have irregular immigration status. Only a few banks in developed countries maintain services that could appeal to emigrants – who usually have little or no banking experience, combined, in many cases, with language and communication difficulties. It is known that better-educated migrants, who usually have relatives in receiving countries living in urban areas, make greater use of official methods. Today only 4 out of 10 Latin American migrants in the United States – and less than 2 out of 10 people in Latin America – have accounts in financial institutions.

Reducing the costs of remittances

The immediate measure to allow for the reduction of remittances' costs would be to encourage senders and recipients to make use of banks and other financial institutions – that is to say, "to bank the unbanked", both in developed and developing countries. Financial institutions can provide transfer services at lower prices and enhanced security, in addition to opening a range of other possibilities for remittances senders and recipients – such as access to credit cards, loans, credit history, interest-bearing accounts, etc. Such co-related financial products could act as mechanisms of vital importance in the promotion of the productive use of remittances in developing countries. For instance, banks in developing nations could make use of remittances as a basis for the development of micro-credit lines and the issuance of bonds backed on future inflows.

Measures in developed countries aimed at increasing the role of banks and financial institutions should deal with the issue of migrants not endowed with the necessary documentation to access the financial system. Developing nations, on their part, could help enhancing competition by authorizing a wider range of savings and credit institutions to provide money transfer services. In countries lacking appropriate bank networks, particularly in rural areas, governments could consider the establishment of partnerships between leading banks and post office networks. Such initiatives would lead to a review of the legal and regulatory framework that determine which institutions are allowed to operate in the market, with a view to consider the removal of obstacles whenever it is possible. In addition, authorities in both developed and developing countries could launch educational campaigns aimed at addressing the so-called "financial illiteracy" on the part of many migrants.

Developed and developing countries could also consider the review of the current status of money transfer operators – which incur substantive registration costs in developed countries and are not allowed to operate in many developing countries. Alongside the incentives for the use of banks, a more dynamic market for money transfer operators would allow for greater competitiveness – and declining costs – in the market of remittances' transfers.

Once new actors are allowed to participate in the market, one could consider the possibility of providing regular publications on the practices, products and fees of financial institutions and other money transfer operators so as to provide migrants with transparent information on how to make the best use of their resources.

Finally, governments in both developed and developing nations could work, where necessary, to address inaccuracies of current statistics systems with regard to remittances flows. It is known that a sound statistics system gives a clearer picture of the financial transfers that a country receives with a certain stability, contributing therefore to the achievement of better debt ratings. This should be an incentive for recipient countries to improve their statistics. In particular, the provision of reliable data on remittances would be of great importance to grasp their economic impact and maximize its impact on the promotion of development.

Recent initiatives to facilitate the transfers of remittances

A number of initiatives have been undertaken by different stakeholders with a view to facilitating the transfer of workers' remittances to their countries of origin and magnifying their impact on the domestic economy. Rather than constituting an exhaustive list of all existing measures in this field, the initiatives mentioned below are examples on which further action could be build.

- During the last G-8 Summit in Sea Island, the G-8 approved an Action Plan by means of which each country committed to undertake specific policies to reduce the cost of remittances. The measures were conceived in the context of the framework presented by the report of the UN Commission on the Private Sector and Development, which emphasizes the primary importance of the private sector in the unleashing of resources currently locked-in developing nations for the promotion of economic growth and poverty alleviation. The measures contemplated under the G-8

Action Plan include initiatives to enhance competition in the financial sector, better coherence and coordination among international organizations dealing with the issue, cooperation between remittance service providers and local financial institutions, and instruments to encourage the productive use of remittances, such as market-oriented local development funds.

- France has been developing a co-development policy for the past two years. A facility has been created to co-finance projects by associations of migrants living in France in their villages or regions of origin, and co-development schemes are progressively being set up with main partner countries, which are countries of emigration to France. In addition to specific funds that give a wider scope to projects co-financed with associations, the schemes comprise mechanisms that aim to facilitate investment in the country of origin. Hence a project, which includes a guarantee fund for the loans with a view to carrying out co-financed projects by Senegalese people living in France, is being created with a microcredit union in Senegal and a facility, created with European Union funds, is able to finance equity participation by Moroccans living in France in SMEs in high-tech sectors in Morocco. Moreover, French cooperation efforts offer financing that enables highly qualified migrants (academics, researchers, doctors, engineers, etc.) to carry out projects in their countries of origin, generally within the scope of partnerships between the institution for which they work in France and its counterpart in their country of origin.

- Spain has launched initiatives that can be grouped into two categories:a) promoting a higher participation of banks and financial institutions in the channelling of remittances. A comprehensive study on remittances sent from Spain to Latin America was conducted in 2002 and its results were disseminated among financial institutions through seminars, having as main results the signature of agreements between Spanish and Latin American financial institutions which lave led to a significant reduction in fees; b) fostering the entry in the market of new agents that may have comparative advantage in reaching population in rural areas such as post offices. Several agreements between post offices have already been signed.
- Also, Spain has been financing with the Interamerican Development Bank a pilot project aimed at promoting the inclusion of financial institutions in the most isolated areas to participate in the remittances' market.

- Germany is successfully working together with recipient countries, in particular with Turkey, and has significantly reduced the cost of remittances. For years this cooperation has improved services to migrants and their families and has offered efficient transfer opportunities in the formal sector while maintaining supervision standards. Recorded remittances flows out of Germany reached Euro 3.18 billion in 2004. The major beneficiary country is still Turkey, with approximately Euro 0.88 billion.

- Through its Multilateral Investment Fund, the Interamerican Development Bank (IDB) is engaged in building a network of financial institutions, including microfinance organizations, in Latin American countries, in association with formal financial institutions in developed countries. The IDB has approved 9 projects of technical assistance in this field, totaling more than US$ 14 million.

- Brazil’s state-owned Caixa Econômica Federal has created an instrument by means of which Brazilian emigrants are able to open accounts through the internet outside the country. Using a credit card, the Brazilian worker can send up to US$ 10,000 in remittances at very low costs.

- In August 2001, Banco do Brasil issued US$ 300 million in bonds (with 5 years of maturity) backed on future yen remittances from Brazilian workers in Japan. The bonds were rated BBB+ by Standard & Poor – a higher ranking than Brazil’s sovereign position at the time. Banks in El Salvador, Mexico, Panama and Turkey have also used remittances as a basis for raising external financing in the markets. These experiences show that the securitization of remittances can leverage the absorption of further resources in developing countries.

- The United States adopted in 2001 a cooperation program with Mexico called “Partnership for Prosperity”, which, according to US authorities, have led to a reduction of 60% in remittances costs of Mexican workers. The Program include measures to promote financial literacy among migrants, as well as a system of consular identification that allows Mexican workers – either with legal or illegal migration status – to open accounts in US banks. Also, the Federal Reserve Bank has completed the extension of its Automated Clearing House (ACH) system to Mexico, allowing electronic funds transfer at very low costs.

- The USAID has been encouraging groups of migrants to pool their funds to institute community based projects in their homelands. For instance, USAID has supported the Pan American Development Foundation (PADF) in pooling remittance resources for projects in Haiti, Mexico and El Salvador, particularly in activities such as building schools and improving roads and sanitation.

Conclusion: the work ahead

The measures referred to in this paper, as well as the examples mentioned, require the participation of governments, the private sector and individuals both in developed and developing countries. The nature of these initiatives indicate that further action would take place primarily at regional, bilateral and national level. Indeed, it's crucial not to consider the efforts to use remittances flows for development purposes as an alternative to ODA flows.

Measures to be addressed, either at a national basis or in the regional and multilateral context, could include:

1. Promotion of Competition

This requires a high level of knowledge of the functioning of the sector at national and international level (degree of competition, barriers to entry, percentage of remittances that effectively gets to their destination), covering both sender countries and recipient countries. The main goal is to detect the main obstacles to efficiency along the “life-cycle” of the remittance.

In view of the results, a list of measures to enhance the functioning of the market and the quality of services can be drafted. Those measures may require different types of agreements (at domestic, regional or multilateral level).

Industrialised countries could promote regulatory reforms intended to authorize a bigger number of savings and credit institutions that could participate in money transfer operations.

2. **Promotion of regulations that do not put obstacles to remittances flows**. We should keep in mind that the high costs of the flows are not only caused by the oligopolistic nature of the market, but also by restrictions imposed by many recipient countries. Thus, it would be desirable that receiving countries make efforts to promote regulations that do not hamper remittances flows, while pursuing efforts to fight terrorism and money laundry.

   Along the same line, regulations should hold a balance between the goals of fighting terrorism and money laundering and the goal of helping an adequate flow of remittances.

3. Fostering the **channelling of remittances through financial institutions** ('bancarization'). The use of banks and other financial institutions by receivers and senders of remittances would also contribute to the reduction of transfer costs. In light of favouring recourse to this kind of service and upgrading the immigrant's access capacity to it, it is necessary that the latter have a better knowledge of his possibilities and its benefits.

   Special attention should be given to the facilitation of migrants' access to the financial system in developed countries.

   Financial literacy campaigns: In this field, campaigns and courses can be addressed to immigrants in sender countries. The contents of these campaigns would feature details on the most cost-effective possibilities for sending money abroad, enhancing the benefits of channelling remittances through banking system and featuring their rights as clients.

4. **Expansion of financial services**. The purpose of fostering the 'bancarization' of remittances would also contribute to the provision of integrated services to senders and receivers of remittances, such as savings accounts, credits and mortgages (*microfinance).* Thus, there could be measures directed to supplying information to financial institutions about the features of markets in receiving countries, in order to give incentives for their participation and expand the offer of financial services.

5. **Promote agreements between financial institutions of sending and receiving countries.** The results of the former proposed measures would be maximized through the establishment of 'alliances' between financial institutions –sender institutions and receiving ones-. These types of measures are particularly necessary in those countries or regions with least developed banking networks, which is usually the case in rural areas.

In this sense, measures directed to the promotion of the participation of institutions present in the most isolated areas –such as postal offices- could be taken.

The provision of technical assistance to small financial institutions in remittances' recipient countries –therefore reducing transfer costs- becomes highly relevant too, as it can encourage voluntary agreements between financial institutions in receiving and sender countries.

6. **Consumers' protection**. Due to a low financial education and a lack of familiarity with the country, as well as to the oligopolistic nature of the market, consumers of remittances services are often in a weak position with regard to firms involved in remittances transfers. As a consequence of this unbalanced relationship, more expensive and lower quality services are quite widespread.

   Several measures might be envisaged to implement more transparent policies with regard to total fees and transfer conditions including, inter alia, all applied fees, exchange rates and delivery times. Other consumers' protection measures might be implemented in collaboration with consumer associations or even through the creation of specific organisations.

7. **Promotion of financial innovation.** In order to maximise the impact remittances have on the economic activity of the recipient country (the 'multiplier effect'), the development of new financial instruments, such as loans backed on remittances, might have positive results.

   In this area, measures should focus on promoting new instruments through pilot projects, disseminating best practices based on instruments already adopted and providing technical assistance to financial institutions in recipient countries. The involvement of multilateral financial institutions that are being active in this field could be very valuable.

8. **Promotion of credit and popular savings institutions**. Despite the fact that most remittances are generally used for consumption, an improvement on the regulatory framework aiming at promoting an orderly development of credit and popular savings institutions, protecting savings and increasing the supply of financial services to micro, small and medium enterprises might encourage the channelling of remittances through microdeposits in these institutions. The resources captured with the microdeposits will be released as microcredits promoting thus productive activity in the recipient country.

9. **Improvement of statistics**. Statistics on remittances provided by recipient countries are not comparable so far due to a lack of harmonisation of Central Banks regulations. Furthermore, recipient countries might benefit from improvements in their statistics systems since a reliable accounting on remittances might help obtaining better debt ratings. Further efforts should thus be implemented in this field where multilateral financial institutions might play an important role.

10. **Promotion of public-private collaboration for the removal of obstacles to remittances flows**. Working groups including private and public institutions could be created both in recipient and sender countries in order to collaborate in the identification of obstacles to remittances flows and ways to remove them. Best practices on new instruments that allow for a higher multiplier effect of remittances might also be shared among these groups.

All these measures must be implemented taking into consideration that remittances constitute private flows of capital. The suggested policy frameworks aims only at providing more and better possibilities for the migrants to transfer and use their money in a cheaper, secure, rapid and productive manner.

In this regard, two possibilities could be considered: 1) the preparation of a resolution under the UNGA through which countries would commit themselves to a set of general principles and manifest their intention to pursue the negotiation of international agreements to facilitate remittances flows; 2) a framework agreement on remittances facilitation , also encompassing general principles, to be signed by all interested countries – in particular, with the participation of major source and recipient countries.