Inputs for an Elements Paper on Financing for Development

International Organization for Migration

Introduction

Halfway towards the 2030 Agenda the financing gap in funding the SDGs is widening. The reasons are many. An inadequate international finance system, country over-indebtedness, inflation and a lack of private sector investment mean that only 15% of the SDGs are on track (HLPF, Summit of the Future 2024). Global humanitarian crises are unabated and growing, with one quarter of humanity living in conflict-affected areas and/or natural hazard pathways. Conflict is one of the key drivers for the more than 108 million people forcibly displaced worldwide – more than double the number a decade ago. The situation is further exacerbated by environmental impacts and climate change, which could force 216 million people across six continents to move within their countries by 2050 (World Bank Groundswell Report, 2021).

There are over 281 million international migrants representing 3.6% of the total global population; from a labour migration perspective the ILO estimates there are 169 million migrant workers, constituting 4.9% of the global labour force. On the African continent, this includes an estimated 14.4 million international migrant workers. Migrants are clearly drivers of development globally. Research shows every 1% increase in immigration could boost GDP in destination countries by 2% and eliminating mobility restrictions could increase global GDP output by 11.5% to 12.5%. (Leveraging Human Mobility to Rescue the 2030 Agenda, IOM Flagship Report, 2023).

The world urgently needs ambitious and creative plans to finance sustainable development. The High-level Dialogue on Financing for Development in 2023 called on Member States to ensure financing commitments were commensurate with achieving the 2030 Agenda and noted that finance is critical in driving progress toward the SDGs and the Paris Agreement. Most recently, in the Pact for the Future, Member States reiterated their commitment to accelerate progress towards achieving the SDGs, including through mobilizing significant additional financing from all sources for sustainable development. Migrants, along with their communities and countries of origin, are often the ones who suffer most from this underinvestment which further fuels migration.

Areas for further action:

Domestic and International private business and finance

<u>Support and strengthen remittances</u>

Migrant remittances totalled 647 billion dollars in 2022. These are a major source of private finance for low- and middle-income countries (LMICs), often surpassing FDI and ODA. It is predicted that cumulatively migrant remittances will exceed USD 5 trillion between 2023 and 2030 to LMICs. Remittances and diaspora economic contributions go a long way to addressing financing for development shortfalls. Remittances to LMICs through *formal* channels were estimated at $669 billion in 2023 for forecast to reach $690 billion in 2024, larger than both FDI and ODA flows combined. These amounts would be even higher if informal remittances are considered, potentially USD 1 trillion on an annual basis (IOM Flagship Report, 2023). Migrant remittances and diaspora investment already fund the attainment of the SDGs: these contributions have the potential to lift people out of poverty, cover health, education and other household expenditures. Moreover, they are invested in local communities, creating decent jobs and driving economic growth. In other words, these directly contribute to the Six Transitions for the SDG Acceleration, which has been put forward by the UN Sustainable Development Group for systemic and collective UN support to SDGs.

Despite some progress in recent years, the average cost of sending $200 USD in remittance was 6.3% in 2022 which is over double the SDG target of 3%. The African continent continues to have some of the most expensive remittance corridors in the world with the average costs of sending to and within the continent at 7.8%. If the current cost of remittances decreased by 5 percentage points, bringing it closer to the SDG target of 3% on average across corridors, this would mean in practice an extra USD 6.88 billion being sent to households in LMICs/year (IOM and the Summit of The Future, 2024).

Recommendations:

Lower remittance costs

⇒ Prioritize efforts to fast-track action on bringing remittance costs down, in line with the SDG target 10.c.1 on reducing remittance cost, especially in Africa, Least Developing Countries (LDCs), Landlocked Developing Countries (LLDCs) and Small Island Developing States (SIDS). On average, a decrease in the cost of remittances by 1 percentage point is associated with a 0.21% increase in the total amount of remittances received in Low- and Middle-Income Countries (LMICs). For SIDS, this would mean an extra USD 560 million. By 2030, this would mean an additional USD 41.25 billion received in LMICs, and USD 3.36 billion in SIDS (IOM Flagship report, 2023).

Strengthen remittance and diaspora investment data collection and analysis

⇒ Develop and implement robust systems for collecting and analysing remittance and diaspora investment data which will inform more effective policy-making and private sector strategies.

Enhance Financial Inclusion and Literacy – especially for women

⇒ Promote digital inclusion by providing access to affordable and reliable internet services and digital tools. This can help migrants and their families take advantage of cheaper, safer, and faster remittance services and would promote access to digital financial services, including in rural areas.

⇒ Redouble efforts to support women senders and women recipients of remittances. According to the UNCDF, the majority of remittance recipients are women within female headed households who spend more of the amount received on food, education and healthcare. Recognize how digital access and gender gaps can impact remittances; as recent studies have shown only four out of ten women registered for digital remittances which means they continue to rely on more expensive, slower and less secure channels.

⇒ Ensure the provision of safe and regular pathways to help support the integration and financial and digital inclusion of migrants, as noted in the Global Digital Compact.

⇒ Implement targeted financial literacy programs for migrants and their families, focusing on vulnerable groups such as women, youth, and those in rural areas. These programs should educate them on the benefits of using formal remittance channels and linked financial services like savings, credit, insurance, and investment products. These programs can be extended to diaspora investors and local entrepreneurs to enhance the effectiveness and sustainability of investment opportunities

Promote harmonized regulatory frameworks and payment system infrastructure

⇒ Advocate for harmonizing AML/CFT regulations across jurisdictions. Encourage banks to adopt a risk-based approach to these regulations, in line with Financial Action Task Force recommendations, to prevent the de-risking of money transfer organizations (MTOs).

⇒ Introduce tiered account regulations that allow individuals with incomplete documentation to open low-value accounts.

⇒ Permit non-banks to process remittances to facilitate lower-cost digital providers entering the market.

Leverage the contributions of the diaspora and diaspora investment

The Addis Ababa Action Agenda and the Paris Agenda for People and Planet both called for greater exploration of private capital as a key solution to finance sustainable development and climate adaptation. The Global Compact for Migration (GCM), specifically its Objective 19, seeks to create conditions to facilitate diaspora investment including diaspora bonds and a dedicated workstream in the UN Network on Migration focuses on leveraging the economic contributions of the diaspora. The annual Global Forum on Migration and Development also champions the role of diaspora as a critical actor in development. The International Conference on the Future Agenda of Action for Global Diaspora Engagement (held in September 2024, Cabo Verde), in which the Global Diaspora Policy Alliance (GDPA) was launched, also reaffirmed a significant role of diaspora communities that can be leveraged for sustainable development, including financing for development.

Migrants and their descendants are particularly attractive investors from a government's perspective as they can be motivated by an emotional attachment to their home country or region and will sometimes pay a 'diaspora premium' whereby they are willing to take a lower return for a given risk compared to other international investors. More than 40% of UN Member States have dedicated infrastructure in place such as a diaspora institution or Ministry often with the aim of channelling and/or incentivizing these investments. Many countries have dedicated diaspora resources situated in their inward investment agencies. This type of investment has many positive knock-on effects for recipient countries including knowledge, skills and technology transfer which can in turn help establish new industries. Estimates of migrant savings in countries of destination range between USD 420-520 billion; these can be re-invested back into countries of origin in the form of property, enterprise development and portfolio investments.

Recommendations:

- ⇒ Create finance mechanisms to crowd in investment from the diaspora. This can involve public-private partnerships, blended finance, grant matching, first loss mechanisms, guarantee funds and fiscal incentives.
    - As a field-proven methodology to support peace and stability even in situations of a divided community, replicate and champion *IOM's Matching Grant Mechanism in Somalia* which focuses on co-financing and diaspora investment top-ups that brings communities together and enables them to drive their own recovery.
- ⇒ Leverage diaspora investment and remittances to strengthen climate resilience and drive innovation for a just and sustainable green transition for communities and countries more vulnerable to adverse impacts of climate change.
- ⇒ Strengthen the networks, institutions and programming that support migrants and the diaspora leading the way in tailoring global finance to be more responsive to the needs of LDCs, LLDCs and SIDS.

International Development Cooperation – Climate Finance

<u>Bring Human Mobility to the Forefront of Climate Financing</u>

Migrants and displaced populations are among the most vulnerable groups affected by the impacts of climate change and often live in areas that are highly exposed to floods, droughts, and hurricanes. The climate emergency is forecast to push 130 million people into extreme poverty by 2030 (Impact of Climate Change on Extreme Poverty by 2030, World Bank. 2020), undoing much of the progress in the last decade, and result in 200 million climate migrants by 2050. On the financing side, climate adaptation costs for developing countries are forecast around USD 340 billion per year by 2030. At the Summit of the Future, Member States identified that developing countries are particularly vulnerable to the adverse impacts of climate change and called for developing countries to have access to finance that allows them to make progress towards the 2030 Agenda and that addresses climate change.

The direct consequences of the climate crisis with droughts, flooding, rising sea levels and extreme temperatures was discussed by Member States at the African Climate Summit in September 2023. Without direct action and financial support, 105 million people could become internal migrants in Africa. Meeting climate mitigation and development goals has the potential to reduce climate-induced displacement by up to 80%. In the nexus of climate change, financing and human mobility, there is an increased need for much greater financial support to assist governments and their citizens adapt to and mitigate the adverse impacts of climate change. Such funding is not a nice to have, it is a vital to assist LMICs invest in climate resilient infrastructure with the 2023 flooding in Libya demonstrating how failure to do so invites catastrophe (William Ruto. President of Kenya. Op-Ed to NY Times. October 2023).

Recommendations:

- ⇒ Consider and integrate the human mobility scope of the Fund for Responding to Loss and Damage, especially for countries and communities with greater vulnerabilities to adverse impacts of climate change:
  - o To scale-up the finance needed to address increasing climate-induced displacement.
  - o To already invest in preparing for safe migration, considering a long-term approach to address loss and damage; including setting up policies and strategies to absorb new migrants, extend existing migration statuses, or to send populations abroad. This could be via labour schemes, family reunification or humanitarian visas via bilateral or multi-lateral agreements.
- ⇒ With an increasing number of people displaced by disasters: 26.4 million during 2023 and as conflicts and disasters increasingly intersect and drive further displacement, support innovative research partnerships such as between IOM and ADB around displacement data in Asia and the Pacific.
- ⇒ Further consider the role of migrant and diaspora finance for loss and damage assistance in the aftermath of climatic events, with the engagement of the Pakistani diaspora during and after the devastating floods of 2022 providing a strong example.
- ⇒ Building on IOM's technical guidance to the UNFCCC, integrate climate mobility considerations into national adaptation plans, and thereby associated financial plans. IOM strongly supports states' engagement in regional initiatives in this regard, such as the Pacific Regional Framework on Climate Mobility.

International Development Cooperation – The quality, impact and effectiveness of development cooperation

<u>Advocate for joined-up approaches and flexible funding across the Nexus</u>

Humanitarian, Development and Peace (HDP) interventions often do not take place sequentially and may need to be addressed simultaneously. This can result in coordination challenges especially between humanitarian, development and peace actors inhibited by siloed coordination models. Even with the presence of strategic planning frameworks at the country level such as UNSDCFs and HRPs, these frameworks are intentionally separated but this sometimes results in vulnerable populations such as IDPs being overlooked. ODA is often not aligned to "early development" that could serve to bridge the transition away from humanitarian interventions and respond to crises more effectively. Pivoting out of the "grey zone" between emergency response and development-oriented interventions is only possible if the international community, UN agencies, donors and IFIs systematize joined up approaches and commit to making funding more flexible across the Nexus.

Recommendations:

⇒ Better link emergency response to development-oriented interventions as outlined in Management's response to the IASC independent review of the humanitarian response to internal displacement.
  - This includes mandatory annual humanitarian coordination architecture reviews, informed by an analysis of the displacement profile.
  - At the country-level, the IASC encourages HCTs to include distinct analysis around IDPs and for CCAs to take a more people-centered approach including by more prominently addressing the risks of displacement from a preventative perspective.
  - OCHA's 3-year Flagship Initiative focusing on "emergency development" in Niger, Colombia, South Sudan and the Philippines is a useful operational model to explore, empowering crisis affected people and better integrating HDP budgets

⇒ Maintain political momentum around the OECD DAC recommendation on HDP Nexus and strengthen advocacy efforts with key actors that influence decision-making, including parliamentarians. The transition from emergency to durable solution will require also that donors and finance institutions engage in internal capacity building and peer exchange across the humanitarian and development sectors.

⇒ Strengthen pooled funding arrangements such as UN MPTFs and the SG's Peacebuilding Fund which are strong models for joint financing leading to more coherent responses and joined-up interventions. This is in line with the UN Secretary-General's vision to promote joint approaches to improve programmatic efficiency, coherence and collective ownership.

⇒ From a policy perspective, work with donors to mainstream IDP investments (consider IDP/displacement focused budget markers as championed by the EU) into budgetary frameworks that take a strong results-based measurement approach with a focus on collective outcomes that span the HDP Nexus.
  - Move away from projectized approaches of M&E that focus on 'how many IDPs are reached' versus "how many IDPs are brought out of a situation of need."
  - Create a knowledge sharing platform that incorporates this information and ensures ease of access.

International Trade as an Engine for Development

<u>Increase support for Small Scale Cross Border Traders</u>

Chapter 3(d) of the 2023 Financing for Sustainable Development Report focuses on international trade as an engine for sustainable development. The Chapter highlights a number of structural challenges facing LDCs including an overreliance on commodity exports, low manufacturing value added per capita, narrowing existing technology and infrastructure gaps and limited fiscal space due to combination of debt burdens and limited capacity to mobilize domestic resources. IOM has supported the African Union Commission (AUC) in accelerating the ratification of the Free Movement of Person's Protocol, which is an integral component to enhancing the benefits of trade on the continent, in addition to fostering the integration dynamics relevant to boosting economic and sustainable development. While there has been a strong focus on assisting African countries accessing regional and international markets these efforts should take more into account the high levels of informality in local economies.

Small-scale cross border trade/traders (SSCBT) is a substantive informal activity in many African economies, SSCBTs operate on an informal level across economies and markets and play a critical role in connecting local producers and consumers and supporting underserved populations. Small scale cross-border trade can be defined as a form of trade that is unrecorded in official statistics and is carried out by microbusinesses and individuals across borders of neighbouring countries. SSCBTs typically deal in low-volume, low-value food, essential goods, or household items for sale in local markets within border zones and can encompass a myriad of small traders, middle persons, transporters, artisans, and other individuals involved in the supply chain and movement of goods across the border. Traders fill an important gap in local economic resilience by ensuring the continuity of the food supply and other essential goods for low-income households. They help stabilize small economies and generate demand across borders, particularly in border towns and isolated communities far from urban centres.

SSCBT serves as a livelihood strategy for reducing poverty and supporting socioeconomic empowerment on the personal and household level, with accompanying national and regional benefits. The IMF estimated that in the COMESA, SSCBT is a multi-billion-dollar industry with strong potential for further growth especially considering increasing continental integration. SSCBT is a major source of livelihood and employment on the African continent and better understanding this trade can also have big implications on regional food security and poverty. Migration and Trade in Africa also has significant gender implications. A large majority of small scale-small-scale cross border traders are women for whom cross border trade is the only source of income.

Recommendations:

- ⇒ Enhance data on SSCBTs, especially research on the size and scale of this niche market, for enhanced progress monitoring. Further data on SSCBT trade volume, channels, kind of trade, trader profiles including gender and age disaggregated.
- ⇒ Promote the accessibility and affordability of trade finance for SSCBT and border dwelling communities.
- ⇒ Strengthen integrated border management, simplify entry requirements which could include eliminating visas and other barriers to the free movement of persons.
    - o Increase training to border agencies' staff on their role facilitating cross-border trade and human mobility, incorporating a gender focus to the training given the high number of women who are SSCBTs.
- ⇒ Facilitate development/harmonization of national guidelines on border management (air, land and sea borders) for the efficient and effective movement of persons and personal goods in line with regional regulatory frameworks and economic commissions on cross-border cooperation and international industry best practices.
- ⇒ Advance and where necessary revisit regional agreements. For example, there are a number of multilateral agreements in the Greater Mekong Subregion on trade and transport; while there

are references to informal sectors and mobility, there is room for additional review of mechanisms to facilitate SSCBT.

⇒ Advance progress on a comprehensive liberalization in trade for services.

International Development Cooperation: Blended Finance

<u>Private Sector finance for solutions to internal displacement</u>

Internal displacement is a direct challenge to the 2030 SDG Agenda as IDPs are among the most vulnerable population in the planet and continue to face serious protection concerns, lack of access to housing and basic services as well as livelihoods and still suffer from high levels of political marginalization. The Internal Displacement Monitoring Centre estimates the economic cost of internal displacement at US $30 billion or $390 per IDP/year.

Sovereign finance is not sufficient to comprehensively address the investment needed to deliver development-oriented solutions to displacement. IDP hosting countries often face competing priorities and a multitude of development related challenges including weak economic growth, high debt, large unemployment and vulnerability to external shocks such as food and oil price inflation and climate-related risks. States struggle to attract the private sector due to a number of structural challenges including a limited or weak policy environment, a non-conducive regulatory environment to support market development and FDI, limited infrastructure to support greater access to finance for MSMEs and entrepreneurs and extremely vulnerable populations living in chronic poverty.

To fully mobilize the domestic private sector, states need to ensure action on IDPs is a national priority and a critical step for development, peace and prosperity. This commitment can be demonstrated through embedding solutions within financial strategies and development plans and by drawing on domestic budgets to allocate funding to support critical institution building and investments in key sectors. As identified by the UN Secretary General's High-Level Panel on Internal Displacement (HLP), it is not possible to talk about Private Sector Engagement that is mutually exclusive from the investments the State must make. One of the first steps national governments can take is to develop and/or enhance conducive policies as a signal of the government's intentions.

Building on the positive actions already undertaken under the SG Action Agenda on internal displacement, national governments need to continue to strengthen financial policies and regulations which create an enabling environment for greater private sector engagement; for example, when centralized Ministries such as the Departments of Finance and Treasury are empowered to recalibrate domestic investment towards development-oriented solutions for IDPs and IDP hosting communities. At same time, strengthening Public Financial Management (PFM) by demonstrating government transparency and accountability remains paramount in driving development-oriented investments for IDPs. When PFM is observed as weak or limited, this has significantly damaged prospects for private sector engagement.

Such action from the national government is also the impetus for incentivizing increased engagement by bilateral donors and IFIs which can lead to greater mobilization of commercial investors and private finance, as noted by Deputy Secretary-General Amina Mohammed to MDBs against the backdrop of the Summit for the Future. These are the foundations upon which to lay the groundwork for greater exploration of blended finance leading to catalytic investments that can support critical development sectors such as housing, land and property, education and livelihood/employment to drive solutions for displacement.

Recommendations:

Consider Blending Public and Private Resources

- ⇒ Use public resources and sovereign finance to invest in urban and rural infrastructure to lay the groundwork for private sector investments in housing and livelihood development that can reach sufficient scale.
    - IOM's 2023 PROGRESS report showed housing and land status are critical factors in advancing development solutions, and critical as a basis for accessing other essential services.
- ⇒ Develop local private sector engagement strategies to address bottlenecks and create market opportunities in relevant sectors.
- ⇒ Recalibrate VAT towards State Owned Enterprises and other public agencies to enhance IDP programming. Develop housing finance products tailored for underserved, low-income, IDPs and especially women-headed households.

De-Risking

- ⇒ Support IFIs to create partnerships that unlock and catalyze private sector financing to create new markets and scalable solutions that empower IDPs and IDP hosting communities. Consider Facilities that focus on de-risking investments, alleviating first mover costs and assisting local banks and NBFIs broaden their borrower base to systematically include IDPs.

Targeted Public Policies

- ⇒ Integrate IDPs and solutions to displacement in financial strategies, sectoral and development policies and planning that incentivizes private sector engagement and facilitates the participation of IDPs and IDP communities to ensure their needs are addressed. From a public policy perspective, numerous possibilities exist including employment programs aimed at displaced persons, economic inclusion of IDP-led businesses.
- ⇒ Align public policies that seek to incentivize the domestic private sector to national/regional development priorities (e.g., agricultural supply chains) to enhance economic inclusion and maximize job opportunities for IDPs and IDP hosting communities.

Enhanced role for UN RC/UNCTs

⇒ Engage UN Resident Coordinators, particularly their role mobilizing resources at the country-level, to identify gaps and opportunities for greater private sector engagement particularly as it relates to joint programming across UN agencies.
⇒ Spotlight best practices in ensuring safeguards for vulnerable populations commensurate with the increases in public-private partnerships.

Technical Assistance to support the local Private Sector

⇒ Livelihoods and jobs are key to support return or local integration of IDPs, TA investments that promote sound planning, create enabling environments for private sector investment and support technical assistance to increase access to finance would enhance livelihood opportunities, strengthen the resilience of IDPs and play a key role in achieving solutions.

To reinforce these recommendations, FFD4 Conference could specifically:

1. Make references to the positive contributions of migrants to financing for development, and more broadly towards accelerating sustainable development, at the Conference itself and outcome document and beyond – as articulated in the Pact for the Future and the SDG Summit Political Declarations,
2. Develop a monitoring and evaluation framework for the implementation of the new programme of action through the FFD platform, starting from the preparatory processes for the Conference, deriving as much as possible from indicators and targets of the relevant existing frameworks and processes such as SDGs and the Pact for the Future.
3. Harness the annual Financing for Development Forum, held under the auspices of ECOSOC, to review the implementation of the new programme of action and share innovative and practical solutions to unlock better financing and tackle the finance divide between developed and developing countries.