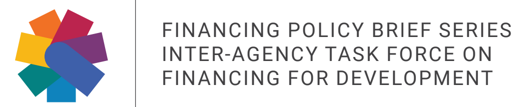

FINANCING POLICY BRIEF SERIES
INTER-AGENCY TASK FORCE ON
FINANCING FOR DEVELOPMENT

THE ROLE OF REMITTANCES AND DIASPORA INVESTMENTS IN FINANCING THE SDGS

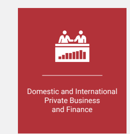
Summary

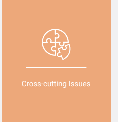
The **International Fund for Agricultural Development (IFAD)** and the **International Organization for Migration (IOM)** have jointly developed this Policy Brief on unlocking the full potential of remittances and diaspora investment for Member States' consideration in preparation for the FfD4.

Key messages

- Migrants' remittances are a major source of private finance for LMICs, surpassing foreign direct investment (FDI) and official development assistance (ODA). In 2023, remittances to LMICs amounted to approximately $656 billion and are projected to reach $5 trillion cumulatively by 2030.
- Beyond remittances, migrants also invest back home and contribute substantial human and financial capital in the form of skills and networks into their countries of origin.
- Remittances and diaspora investments significantly benefit rural areas and less developed countries by bridging financing gaps for millions of households. These funds help lift people out of poverty, improve health and nutrition, and keep children in school, all development goals. They also enable people to acquire assets, start businesses and strengthen their livelihoods, and enhance resilience to climate-related challenges.
- **Unlocking Full Potential:** Despite their importance, the full potential of remittances and diaspora investment for sustainable development remain unrealised. Enhanced international support and strategic commitment could harness these financial flows to address long-term goals, significantly advancing the Sustainable Development Goals (SDGs).

RELEVANT ACTION AREAS





ABOUT THIS SERIES

The Financing Policy Brief Series has been prepared by the Inter-agency Task Force on Financing for Development to inform the substantive preparations for the Fourth International Conference on Financing for Development (FfD4), to be held in Sevilla, Spain, from 30 June to 3 July 2025.

The Inter-agency Task Force on Financing for Development is comprised of more than 60 United Nations Agencies and international organizations. The policy briefs in this series were not subject to review by Task Force Members, and represent the views of the authoring organizations.

The full series is available at:
https://financing.desa.un.org/iatf/report/financing-policy-brief-series

Problem statement

The unmet potential of remittances and diaspora economic contributions to address shortfalls in development finance in Low- and Middle-Income Countries (LMICs).

Developing countries face annual shortfalls of up $4 trillion in financing their own development. Remittances and diaspora economic contributions can go some way in addressing this. Remittances to LMICs through *formal* channels were estimated at $656 billion in 2023 for forecast to reach $671 billion in 2024, larger than both FDI and ODA flows combined[1]. Remittances and diaspora investments already fund the attainment of the sustainable development goals (SGDs). These contributions lift people out of poverty, and pay for food, medical and education expenses. They are invested in the local community, creating decent jobs and driving economic growth. Each of these is a Sustainable Development Goal. Yet, this role is largely unheralded in the financing for development discourse.

To address this, and realize **the full potential of these resources addressing financing for development shortfalls,** several key challenges that require targeted interventions and policy improvements have been identified:

1. **Low rates of financial and digital inclusion and literacy** amongst migrants and their families impede their ability to take advantage of cheaper, safer and faster remittance services as well as their ability to invest back home. This is particularly the case for more vulnerable groups such as women, youth or those living in rural areas. It pushes them to use cash or informal methods for sending money back home which are more expensive and less safe and impedes their ability to access linked financial services such as savings, credit, insurance or investment products.
2. The lack of an **enabling regulatory environment** also impedes financial inclusion and uptake of remittances and investment. Anti money laundering (AML) and combating the financing of terrorism (CFT) legislation is often misaligned over different jurisdictions and imply onerous compliance procedures. Often banks do not take a risk-based approach to such regulations, in contradiction with Financial Action Task Force recommendations, leaving money transfer organizations (MTOs) derisked and without bank accounts. Similarly, central banks do not have tiered account regulations that would permit those with incomplete documentation to open low value accounts. Finally, a lack of competition on certain corridors results in expensive remittance pricing.[2]
3. **Lack of financial sector depth including underdeveloped payment systems:** The lack of financial sector depth also impedes the ability to invest as well as linking remittances to deeper financial services. This includes payment systems infrastructure where a lack of international interoperability increases the friction of sending remittances across borders. Even where the financial sector is more developed, a lack of incentives or blended finance to crowd in investment from the diaspora impedes the development impact of this economic capital.
4. **Inadequate data and analysis:** Current systems for collecting and analyzing remittance and diaspora investment data are underdeveloped. This lack of comprehensive information hampers the ability of policymakers and private sector actors to make informed decisions and design effective interventions that could leverage these funds for greater development impact.

1. World Bank estimates. These figures do not consider informal channels, which would exponentially increase the amounts.
2. All the factors in this section push up the costs of remittances. Although there has been progress on remittance costs, a 30% reduction in the global average cost over the past 10 years, they remain more than twice the SDG 10.c target of 3% and three times the target for more vulnerable countries such as landlocked developing countries (LLDCs).

Policy solutions

To **fully harness the potential of remittances and diaspora investments in LMICs**, a comprehensive approach is required. Governments and international organizations need to renew and expand their commitments by implementing the following key policy actions:

1. **Enhancing financial and digital inclusion:**
    - 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 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.
2. **Strengthen remittance, and diaspora investment data collection and analysis:**
    - Develop and implement robust systems for collecting and analyzing remittance and diaspora investment data which will inform more effective policy-making and private sector strategies.
3. **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) and low-value cross-border transfers.
    - 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.
4. **Improve financial sector depth:**
    - Encourage the adoption of remittance-linked financial services such as credit, savings, and insurance which can provide additional financial security and opportunities for recipients and investors.
    - Invest in payment system infrastructure and adoption of ISO 20022 messaging standards to facilitate interoperability at international, regional and domestic level as per recommendations in the G20 roadmap for cross-border payments.
5. **Engage with the diaspora:**
    - Ensure the provision of safe and regular pathways to support financial and digital inclusion of migrants and help fuller economic integration.
    - Develop diaspora engagement strategies that look to harness diaspora contributions to development including investment. Involve them in design and decision-making processes to help build trust and ensure sustainability. Mainstream diaspora involvement across all policy areas that impact on them to help reduce bureaucratic and logistical barriers to their development.
    - Create finance mechanisms to crowd in investment from the diaspora. This can involve public-private partnerships blended finance, first loss mechanisms, guarantee funds and fiscal incentives.

By addressing these areas, the donor community and policymakers can create an environment that maximizes the benefits of remittances and diaspora investments, reduces costs and supports sustainable development, climate resilience and economic stability in LMICs.

Specific recommendations for FFD4

Remittances and diaspora investments are a vital source of external finance and a significant contributor to the SDGs. Remittances and diaspora investments are forecast to continue to grow due to predicted increases in human mobility. Meanwhile high remittance costs and incomplete policies negate the positive impact that these flows have on financing sustainable development. To fully harness their potential, Member States should:

- Acknowledge the critical role of the diaspora in financing the SDGs in LMICs particularly with regard to remittances and investment. Ensure that remittances and diaspora investment are explicitly covered in the FFD4 outcome document, and foresee a dedicated section within the next iteration of the Financing for Sustainable Development Report (FSDR).
- Call for the widespread access to formal, cost-effective, and secure remittance services in the FFD4 outcome document and in the monitoring and evaluation frameworks that follow, with a focus on promoting and implementing supportive regulatory frameworks, advancements in payment systems, and digital solutions - especially in rural areas.
- Ensure that the FFD4 outcome document calls for the promotion of competitive remittance market conditions, the adoption of risk-based KYC/CDD approaches, and improved financial inclusion, emphasizing the need for expanded remittance-linked financial services and enhanced digital and financial literacy, particularly for women. Additionally, the document should highlight the importance of providing pre-departure training for migrants.
- Call for the promotion of competitive market conditions, risk-based KYC/CDD approaches, improved financial inclusion, expanded remittance-linked financial services and enhanced digital and financial literacy, particularly for women, and pre-departure training for migrants.
- Enhance the diaspora's capacity to support development in their home countries by, among others, identifying and removing investment barriers, creating supportive investment environments, raising awareness and building capacity within the diaspora to mobilize, and facilitating the creation of investment vehicles and mechanisms that offer technical and financial support to diaspora investors.