Migration & Remittances

Frequently Asked Questions

What is the definition of a migrant?
The United Nations Department of Economic and Social Affairs (UN DESA) defines an international migrant as "any person who changes his or her country of usual residence." (UN DESA, 1998).*

How many migrants are there worldwide?
An estimated 270 million people, or almost four percent of the global population, live and work outside their home countries as of 2019. Of that number, roughly 240 million are regular migrants seeking economic opportunities.

What are the trends in migration? Who goes where?
Contrary to popular belief, most migration is "South-South." Migrants from low- and middle-income (LMI) countries in Africa, Asia, Latin America, or Oceania migrate to other LMI countries within those regions. "South-North" (people from those regions migrating to high-income countries within the 37-member Organisation for Economic Cooperation and Development, or OECD) is second; followed by North-North; South to High-Income non-OECD; and finally North-South.

What are remittances?
Remittances are money transfers sent by migrants to their family members or other loved ones back in their country of origin.

How much do migrants collectively send in remittances on a global basis?
Globally, the 2019 official remittance flows stood at a record USD 706 billion, exceeding global foreign direct investment. Low- and middle-income countries received a total of USD 550 billion, with sub-Saharan Africa, home to many of the least-developed countries, accounting for USD 49 billion.

How important is that money?
Remittances are important not only to the households who receive them but to the home countries as well. At the family level, remittances represent vital income to help meet basic needs for nutrition, housing, and healthcare. That income also helps pay school fees to educate children, to invest in income-generating activities (e.g., to purchase seeds or fertilizer for farming; inventory for a shop; fabric for a tailoring business, etc.), and other expenditures that advance social and economic well-being. At the national level, remittances can be a substantial share of in-bound currency flows. In 60 low- and middle-income countries, remittances total more than 5 percent of gross domestic product. That figure is substantially higher in some countries. In Nepal, for example, in-bound remittances exceed 25 percent of GDP.

How do remittances move from one country to another?
There are two main models: informal and formal. In the *informal* model, the migrant carries physical cash or goods (gold, electronics, other valuables) on his or her person during visits home. The other informal channel involves grassroots networks of unregulated agents. These networks go by different names (e.g., *hundi, hawala*) but the process is essentially the same: a migrant gives cash to an agent operating in the country where the migrant works. That agent has an associate in the migrant's home county; the home-country agent delivers an equivalent amount of local-currency cash to the migrant's intended beneficiary.

The primary *formal* model is "over the counter," or OTC. The migrant goes to a licensed and regulated money transfer outlet, pays an amount over the counter to be sent back home, and then the home-country beneficiary collects those funds from the money transfer outlet's local branch.

What are the drawbacks to the informal models?
Carrying cash and valuables in transit creates obvious personal security risks to the migrants themselves. The unregulated networks pose more systemic risks. They have been linked to money laundering, financing of terrorism, human trafficking, and other abuses. Even where there is no connection to criminal activity, informal remittance flows distort the financial picture in harmful ways for

*It is important to note that this is not the only perspective on this issue. The International Organization for Migration states: "Migrant is an umbrella term, not defined under international law, reflecting the common lay understanding of a person who moves away from his or her place of usual residence, whether within a country or across an international border, temporarily or permanently, and for a variety of reasons. Note: At the international level, no universally accepted definition for 'migrant' exists. The present definition was developed by the International Organization for Migration for its own purposes, and it is not meant to imply or create any new legal category."

developing countries, making receiving countries' balance of payments (the total amount of currency flowing in versus the amount flowing out) appear less favorable than it actually is. This adversely affects those countries' sovereign credit ratings, making it harder and more expensive to finance the kinds of large-scale initiatives that their countries need to develop.

Are there any drawbacks to OTC?

Yes. The OTC business model involves costs: maintaining brick-and-mortar outlets, paying staff, managing cash in multiple currencies, hedging currency risk due to the delay between origination and disbursement of remittances, and most important, complying with all the regulations governing foreign exchange and other financial transactions. These costs get passed on to the migrants and their families in the form of fees for sending and receiving funds, and for converting from one nation's currency to another's. Those fees can be quite high and can also be less than transparently disclosed. Along with the expense, there is inconvenience. Migrants must take time from work to visit the OTC outlet during that outlet's business hours. The home-country beneficiaries must do the same: if they live in rural areas, this can involve substantial travel time and expense. Beyond the logistical hurdles, the current cash-in/cash-out OTC model is a serious missed opportunity. Migrants and their beneficiaries—like everyone else—need a full suite of responsive financial services: savings, credit, insurance, investment, pensions, and more. Remittances could and should be the gateway product for those other products due to their extensive last-mile distribution networks. But this is impossible as long as remittances remain limited to moving cash from point A to point B.

Is there a better way?

Yes. Making remittances cashless makes them less complicated and more affordable. Digital technologies can help lower the costs, increase the convenience, create transparency, and provide the platform from which other vital migrant-centric financial services could be delivered in a more transparent manner.

How would cashless remittances work?

Migrants could be paid their wages digitally. Then they could send a portion back home via their mobile phone or other digital means. Their beneficiaries could keep those remitted funds in digital form, also, transferring a portion to a digital savings account, for example, and using a portion to make–digitally–necessary purchases, or perhaps moving a portion to longer-term investments. The important first step is for the remittances to be digitized. If the beneficiary has to convert the remitted funds into cash, the likelihood is negligible that he or she will re-deposit some of that cash into savings or otherwise re-direct it. On both the sending and receiving side, there are opportunities to layer value-added digital financial services onto digital remittances. But all those opportunities become impractical at the moments of cash-in and cash-out.

What needs to happen to shift remittances away from cash?

The necessary digital infrastructure must be in place. National and international policies and regulations must be in place to guard against illicit financial flows but also to permit honest and law-abiding people to send each other money digitally across borders. Financial service providers must understand migrants' financial needs, and design products accordingly—not just remittances but also the full suite of safe, affordable, convenient, and responsive products for which remittances could be the gateway. Finally, migrants themselves must see and embrace the value. The psychological connection of human beings to cash in hand is a powerful force. Especially for working people without much margin for error, asking them to try something new—where their family's money is at stake—is not trivial. The advantages of moving out of their comfort zone must be obvious and compelling.

Can all this really happen?

Yes. Remaking the global remittance ecosystem to serve migrants better requires coordinated action on all fronts at once—infrastructure, policy, regulation, products, marketing, and user experience. It's ambitious. But the experience of the novel coronavirus pandemic demonstrated that necessity is the mother of invention. Both the new fintech providers and the leading incumbent remittance transfer companies saw double-digit increases in their digital business.

What is UNCDF doing to make remittances work better for migrants?

UNCDF is working on this issue at every level. With national governments, we're reviewing the policy frameworks that are relevant to remittances and making suggestions for revisions. With regional economic communities, we're exploring ways to increase cross-border cooperation. For financial services providers, we're delivering funding and technical assistance so they can understand what migrants really need and value, and then design and deliver responsive products accordingly. For migrants themselves, we're working with an array of providers who can deliver financial and digital literacy skills-building for migrants, ideally pre-departure. And at the global level, we're collaborating with other agencies throughout the UN system and elsewhere so that this issue, and the need for inclusive digital economies worldwide, receives priority attention. All of our work in this area is informed by UNCDF's overarching mandate: the financial inclusion and health of low-income people worldwide. Our migration and remittances programme contributes to, and benefits from, that mandate.

Where is UNCDF working?

We're beginning in low- and middle-income countries in Africa and Asia, with a vision to expand worldwide.

Who is funding the work?

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