Study on remittances sent by Mediterranean migrants from Europe

FEMIP: Financing in Algeria, Egypt, Gaza/West Bank, Israel, Jordan, Lebanon, Morocco, Syria and Tunisia

An in-depth analysis of financial flows from Mediterranean migrants working in Europe, published recently by the European Investment Bank [1], highlights an as yet little-known phenomenon.

[1] *The study is available on the EIB's website at: www.eib.org/publications.*

[2] *This study covers eight of the ten Mediterranean partner countries: Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia and Turkey. The Gaza Strip/ West Bank and Israel were not included within the scope of the study.*

Financed by the FEMIP Trust Fund, the study underlines the magnitude of the volume of funds transferred, examines the obstacles hampering remittances and proposes courses of action aimed at maximising their impact on the financing of the economies of the Mediterranean partner countries [2].

Main conclusions of the study

- Some EUR 7.1 billion is "officially" transferred each year from Europe to eight Mediterranean countries (between EUR 12 and 14 billion including "informal" transfers). These remittances from Europe therefore far exceed total flows of net foreign direct investment (USD 6.4 billion a year, 2000-2003) and official development assistance (USD 4.3 billion a year, 2000-2003) received by these countries.
- Remittances are therefore of considerable economic importance for the Mediterranean partner countries (between 2 and over 20% of GDP, depending on the country).
- The principal official channel for remittances is often money transfer companies as they are accessible, swift and efficient; however, they are very expensive for those sending the money. Transaction costs can sometimes amount to as much as 16% of the amount transferred.
- The funds are intended primarily for consumption purposes. They are used to improve education, health and housing conditions and only a fraction is channelled directly into productive investment. This trend is not likely to change quickly in the short or medium term. However, more efficient use can be made of these funds in order to finance the development of the recipient countries' economies.

Recommendations

First objective: to reduce transaction costs for users

1 Improve the payment systems of the Mediterranean partner countries and facilitate connecting them to the payment systems of the EU countries.

2 Encourage free and fair competition between money transfer operators.

3 Set up a website specialising in remittance-related products to improve migrant workers' access to information and stimulate competition among money transfer companies.

FEMIP action

FEMIP could provide targeted technical assistance to help the Mediterranean partner countries strengthen their domestic payment systems and ensure that they are linked up to European and international systems.

As regards increasing competition, improving transparency and facilitating access to banking services, FEMIP could contribute by stimulating dialogue between European and Mediterranean countries, especially via its Committee of Experts.

FEMIP could examine, with other interested institutions, the creation of a website or specialised think tank to foster greater knowledge and analysis of remittances.

Second objective: to promote increased use of banks for remittances for more secure transfers and better channelling of the funds into productive investment

1 Help banks in the EU and the Mediterranean partner countries to develop specific services for immigrants (accounts tailored for remittances, mortgage products, dedicated investment funds) and promote the use of new technologies for making transfers by telephone or internet, modelled on those already in use in other countries.

2 Encourage banks in the EU and the Mediterranean partner countries to enter into transfer agreements and link their services with the postal networks where the latter occupy a dominant position on the market in the Mediterranean partner countries.

3 Facilitate immigrants' access to bank accounts in EU countries, e.g. by giving migrants access to simplified banking facilities upon presentation of identity cards (or consular registration cards) issued by the embassies of the countries of origin, as is the case, for instance, for Mexican immigrants in the United States and Turks in Germany.

FEMIP action

Relying on its close relations with the banking sector both within the EU and in the Mediterranean, FEMIP could promote dialogue between banking institutions on both sides of the Mediterranean to achieve deeper cooperation.

FEMIP could, via the technical assistance component, encourage those sending and receiving remittances to make greater use of banks, so underpinning the introduction of bank savings products coupled with transfer methods using modern technologies.

Third objective: to maximise the impact of remittances for financing development

1 Encourage banks that receive substantial sums in remittances from emigrants to refinance themselves at low cost on the international capital markets through bond issues secured against the remittances.

2 Help the banks to pool resources from remittances and their respective areas of expertise to finance small and medium-scale projects in the Mediterranean partner countries.

FEMIP action

FEMIP could, by financing the necessary expertise and/or granting the requisite guarantees, help Mediterranean banks to develop innovative products aimed at structuring remittance-backed bond issues.

This securitisation mechanism has produced interesting results in many emerging or developing countries, particularly Turkey. It enables banking institutions in those countries to access the international capital markets on keener terms than those offered by the refinancing methods currently available to them.

3 Encourage diaspora associations in the host countries to pool funds to finance local infrastructure projects and productive investment in the Mediterranean partner countries.

European Investment Bank

EUROMED

Facility for Euro-Mediterranean Investment and Partnership

Contacting FEMIP

Direct loans (with an investment cost of over EUR 25 million) and private equity financing can be requested directly from the EIB. Applications for the financing of smaller-scale projects should be addressed directly to the financial institutions or commercial banks to which the EIB has granted credit lines. A list of the partner institutions in Mediterranean countries and other information on lending can be found on the Bank's website (www.eib.org/femip).

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