



AFFORD, Rich Mix Building
35-47 Bethnal Green Road, Shoreditch, London E1 6LA
Tel: + 44 (0)20 3326 3750 +44 (0)20 3004 6172
Email: remitaid@afford-uk.org gfaal@gkpartners.co.uk

BRIEFING
DOCUMENT

www.gkpartners.co.uk www.afford-uk.org

Introduction to RemitAid™: Remittance Match Funding and Remittance Tax Relief

1. The Case for RemitAid™

Remittances have a number of economic and socio-political benefits relevant to development. We have analysed the range of direct, indirect, micro and macro-economic benefits, but have also identified the negative effects inherent in diaspora and migrant remittances. Consequently, we have designed a scheme (i.e. RemitAid™), which mitigates the negative impacts and structural imperfections, whilst optimising the positive impacts of remittances. RemitAid™ proposes that actual remittances sent to Less Developed Countries (LDCs) for activities falling within Millennium Development Goals (MDGs) and charitable activities, should trigger government co-funding in OECD countries. The co-funding can be in the form of match funding and/or community (i.e. pooled) tax rebates – managed by a new agency RemitAid™ Development Fund (RDF). The funds shall be treated as endowment capital to generate income for grants and investment in diaspora and development activities in LDCs.

2. Remittances as a Form of Self-Help Development Finance

The World Bank estimates that in 2011 remittances to developing countries sent through formal financial channels was about US\$372 billion. Sub Saharan Africa (SSA) received \$22 billion, of which \$11 billion went to Nigeria. There is now a consensus that remittances are an important form of international development finance. We argue that remittances are particularly important for sustainable development because it entails self-help by people who originated from developing countries. The special developmental significance of remittances is illustrated *inter alia* by the following:

- **Comparative Size of Remittances:** Firstly, the relative size of remittance inflows shows that migrants and the diaspora are the foremost financial contributors to development. For many developing countries, the volume of remittances is much higher than Official Development Assistance (ODA) and Foreign Direct Investments (FDI). For many SSA countries, remittances represent over 10% of national income.
- **Enduring Self-Help Financing:** Secondly, unlike ODA and FDI, remittances are a form of continuous and enduring self-help finance generated and distributed by migrants and the diaspora – not disbursements by foreign benefactors. ODA to developing countries tends to increase in times of natural or politico-economic catastrophes, whilst in contrast FDI tends to increase in times of politico-economic stability. World Bank reports that remittance inflows are on a steady growth pattern.
- **Absence of Financial Counter-Flows:** Thirdly, remittance inflows to developing countries are not countered by outflows characteristic of typical ODA and FDI financing schemes. ODA and FDI related outflows from developing countries include: interest, debt and dividend payments; retention and repatriation of funds to pay for donor country expatriates and professionals as well as product and service suppliers. Unlike ODA and FDI, financial counter-flows are not an inherent part of remittance financing.
- **Direct Financial Empowerment:** Fourthly, remittances are payments made directly to the beneficiaries in developing countries without the undue need for governments, corporate and other bodies to act as intermediaries. The directness of the financial relationship is an effective form of increasing financial and civil society empowerment. The beneficiaries of remittances are generally ordinary private citizens, families and local community groups.
- **Relevance to Millennium Development Goals:** Fifthly, remittances generally contribute to the relief of poverty and amelioration of human welfare in developing countries. The inflows are generally spent on food, shelter, education, health services, business start-up, community projects, land and property development etc. These activities funded by remittances are in line with Millennium Development Goals (MDGs) as well as charitable objectives, as defined in many OECD countries.

3. Benefits and Imperfections of Remittances

- **Direct Impacts:** Remittances contribute towards poverty reduction, and the direct economic impacts include the following: Financing of essential human needs; Increase in household income; Investment and stimulation of micro-enterprise and SME; Acquisition and development of real estate; Investment in larger and technological enterprises.
- **Indirect Impacts:** Remittances contribute to economic development, and the indirect impacts include the following: Foreign currency availability; Balance of payment advantages; General economic multiplier effect; Circulation of moneys in deprived communities; New business and enterprise opportunities.
- **Structural Imperfections of Remittances:** Despite the numerous direct and indirect economic and poverty reduction effects, remittances as a form of international development finance currently suffer from a number of structural and inherent imperfections. These imperfections include the following:
 - Non-receipt of remittances (rather than employment) being the new indicator of poverty
 - Dysfunctional migration practices
 - Dependency on external remittances
 - Limited investment in economic production
 - Causation of inflationary pressures
 - Misapplication of funds by recipients
 - Retention of hard currencies in host countries

4. RemitAid™: Framework for Mitigating the Imperfections and Improving the Impacts of Remittances

RemitAid™ is a scheme about remittance tax relief and remittance matching funding for international development. It seeks to mitigate the structural imperfections and improve the developmental impacts of remittances through the financial instrument of tax incentives and match funding. This shall *inter alia*, result in the creation of a long term endowment fund, i.e. RemitAid™ Development Fund to finance the types of productive, equalitarian and poverty reduction schemes, missed out by private remittances. The key characteristics of RemitAid™ are as follows:

- **Practical Diaspora Public Private Partnership:** RemitAid™ is a diaspora initiative which focuses on practical ways of harnessing and optimising the impact of the financial resources of the diasporans and migrants from developing countries. It is also a mechanism that strengthens remittances as a form of self-help development finance, through a three way Diaspora-Public-Private partnership and collaboration.
- **Use of Standard Incentive Tools:** RemitAid™ is a scheme through which Remittance Tax Relief (RTR) or Remittance Match Funding (RMF) is claimed for remittances spent on international development. In the United Kingdom, where the RemitAid™ idea originates, tax relief schemes such as Gift Aid, Venture Capital Trust (VCT) and Enterprise Investment Scheme (EIS) are used as financial incentives to stimulate and support charitable giving, investment in high risk ventures and economic regeneration respectively. RTR and RMF are feasible mechanisms for stimulating remittance expenditure on productive and regenerative ventures and other development activities. The remittances that shall qualify for match funding or tax rebate shall be those sent to LDCs, through formally regulated money transfer channels, for expenditure on activities that contribute towards MDGs and charitable objectives.
- **Simple Operational Framework:** The operational framework (see attached diagram) shall facilitate simple, transparent and low cost collection of matching funds and tax rebates from governments in OECD countries. Organisations and schemes that contribute to MDGs and charitable objectives in LDCs (e.g. health centres, health insurance schemes, schools and enterprise support agencies) shall be designated as 'Recognised Receivers' (RRs)', using the normal accreditation frameworks which already exist in the receiving countries. This would be in line with ODA and FDI schemes which operate within in-country regulatory frameworks. Remittances sent and received by RRs shall trigger match funding or rebate claim. The RDF shall collect verifiable and auditable documentary evidence from participating Money Transfer Operators (MTOs). The cost of collecting the evidence shall be minimal as MTOs already generate, file and maintain such evidence for anti-money laundering (AML) and other regulatory purposes. RDF shall collate and present the evidence to tax or other governmental authorities to validate rebate or match funding claims.
- **Pooling of Funds:** One of the innovative aspects of RemitAid™ is that, unlike other tax incentive schemes, the match funding or tax rebate collected is pooled together in a common fund – instead of being paid directly to individual remitters or charities. The absence of direct financial gain for the individual remitters eliminates almost completely, motive, means and opportunity for fraudulent scams such as 'round tripping' and multiple rebate claims. The pooling of the funds also creates substantial sums of moneys usable to finance a variety of major development programmes. For the match funding option, national lottery, corporate and other partners can join the government by contributing their own matching funds to the RDF pool.

- **New Independent Endowment Diaspora Fund:** The moneys pooled together into the RDF shall be used to create an enduring financial asset in the form of an endowment fund. This fund will exist as a lasting testament and sustainable financial legacy of the role of the diaspora in development – even when current patterns of migration change. Every year, a percentage of claimed rebates and matching funds is added to the endowment capital until it reaches a certain target e.g. £250m. The endowment capital is invested in ethical ventures and managed in ways similar to existing charitable endowments. In time, this will yield substantial annual income, even when annual remittance rebates and matching funds decrease. The income shall be disbursed in the form of grants, loans and investment capital to fund productive, poverty-reduction, enterprise, community and diaspora projects and schemes. The RDF shall be an independent capacity-building fund that supplements and complements private remittance inflows, ODA and FDI by funding schemes not normally covered by these forms of development finance. As with any match funding or tax incentive scheme, adoption of RemitAid™ shall be a political choice and decision. For governments seeking viable and effective partnership to reform and strengthen the remittance sector and support sustainable development and the MDGs, RemitAid™ is a solution.
- **Management and Corporate Governance:** The RDF endowment shall be managed by professional financial institutions just as other charitable trust funds are. Initially, RDF shall be based in the UK and in other host countries where the tax rebates and matching funds are being provided. The endowment capital may also be invested in those match funding countries. There would be a Board of Trustees, responsible for the governance and direction of the fund. Trustees shall comprise representatives of diaspora and migrant workers (i.e. the remitters), national revenue authorities, international development agencies etc.

5. The Benefits of RemitAid™

Apart from the emergence of a new independent development fund, the RemitAid™ scheme has other benefits including:

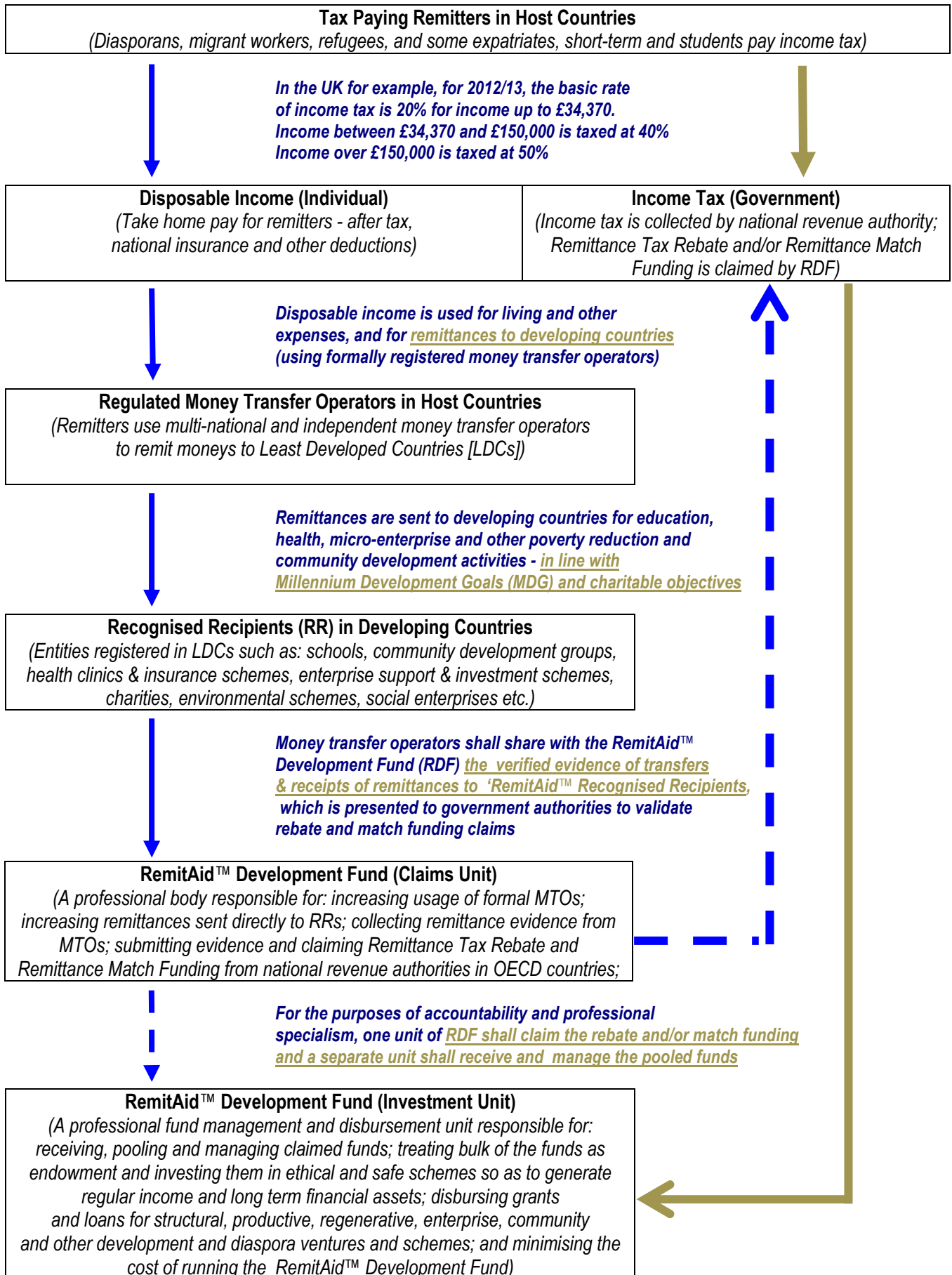
Increase in the productive and regenerative uses of remittances; Increase in the volume of remittances used for developmental purposes; Increase in the use of formal channels for remittance flows; Stimulate emergence of appropriate enterprise development and business support services; Stimulate development of health insurance and other financial and investment products; Encourage wider use of collective remittances for community projects; Promote diaspora and migrant engagement in public private partnerships; Create parity between remitters, Gift Aid donors and other tax incentive beneficiaries; Promote diaspora and migrant integration in host countries; Increase appreciation of diaspora and migrant contribution to international development.

6. Development of the RemitAid™ Idea and Scheme

RemitAid™ was developed in 2003 by Gibril Faal (Director of GK Partners & Chairman of AFFORD) and was first presented to the then Chancellor of the Exchequer in 2004. At a ministerial meeting “to discuss the UK priorities for Africa leading to the Gleneagles G8 Summit” in June 2005, Mr Faal proposed that RemitAid™ be put on the G8 agenda. A programme of development activities was financed by GK Partners, complemented by an international law firm which provided written opinion on how RemitAid™ can be formulated in UK law. However, the 2008 global economic crisis affected progress of RemitAid™. Meanwhile, new opportunities have arisen, including new growth patterns in LDC remittance flows. The UK has also seen the innovative use of match funding to create Big Society Capital to finance social enterprises, whilst the Mexican remittance match funding model continues to grow. These developments have influenced RemitAid™, emphasising the fact that the goals can be achieved through Remittance Match Funding as well as Remittance Tax Relief. Work undertaken so far includes:

- **Conceptualisation:** The RemitAid™ idea emerged out of: experience of working on social enterprise, regeneration, enterprise support and international development; analyses of how the tax regime supports economic development strategies; assessment of the structural shortcomings of remittances; understanding that reform of the remittance sector requires measures beyond reduction of transaction costs (which results from a free, vibrant and competitive money transfer market); understanding that innovative policy tools are needed to mitigate the imperfections of this substantial global financial sector.
- **Research and Analyses:** Review and analyses of literature on remittances; gap analyses of areas of further research needed; development of working definition and classification of diasporas and migrants; pilot survey of diaspora and migrant remittance patterns; initial research and analyses of the economic, social and political aspects of remittances; scoping of cost-benefit and risk factors; analyses of strategic, operational and legal factors, etc.
- **Stakeholder Consultations:** Identification of needs, wants and expectations of primary and secondary stakeholders; consultations with remitters, Home Town Associations, diaspora groups, UK government officials, Finance Ministers and officials from developing countries; African Union Commissioners and officials, development experts from diverse disciplines, international organisations, and other stakeholders.
- **Partnership Building:** Technical consultations with economic, development, philanthropy, tax and legal experts on how to further develop operational and legal framework for a UK, EU and OECD based remittance tax relief and remittance match funding scheme.
- **Endorsements and Resolutions:** Endorsement and support from leading organisations and personalities, including the ‘First Ministerial Conference of Least Developed Countries on Migrants’ Remittances’ (8-10 February 2006, Cotonou, Benin).

7. Operating Framework for Remittance Tax Relief and Remittance Match Funding System



Gibril Faal, London, May 2012