THE INCREASING ROLE AND IMPORTANCE OF REMITTANCES IN LEBANON

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AUTHORS	Sami Atallah
REPORT REVIEW	Kawthar Dara (UNDP)
REPORT DESIGN	Layal Attieh (UNDP)

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Introduction

Capital inflows played a major role in the Lebanese political-economy model in the postwar era. The country's successive governments have maintained capital-friendly policies, namely low tax rates, high interest rates, banking secrecy, and a pegged currency, to attract investors into depositing money in the country's banking sector. The attraction of inflows was greatly helped by a sizable diaspora, who had maintained a solid faith in the country's banking sector. Moreover, with the state failing to enact policies that would spur sustainable growth and provide safety nets to protect the vulnerable, a considerable percentage of Lebanese families relied on inflows from their close relatives abroad to maintain their livelihood.[1]

Inflows from Lebanese living abroad are of two types: worker remittances and non-resident deposits (NRD). Worker remittances—which often come in the form of familial aid— relate to transfers between migrants working abroad and Lebanon. Comparatively, NRDs exhibit an investment-based property, and they are deposits of non-resident Lebanese and non-Lebanese in commercial banks in Lebanon.[2] Both inflows have played a crucial role in maintaining not only Lebanon's social and financial well-being over the past two decades, but also much of the political stability that came with it.[3] The dollarized economy with its pegged currency relied heavily on foreign currency inflows, including remittances and non-resident deposits, to finance a huge import bill and the state's overly inflated spending.

In light of the increasing role of remittances especially after the outbreak of the current financial crisis, this paper aims to take a closer look at the determinants of these remittances as well as their impact. To this end, the paper first explores how remittances are defined and measured in Lebanon and then assesses empirically their size and composition over a period of ten years. Given their growing importance in the shrinking economy, the study examines the macro and micro factors that have influenced the size of remittances. Furthermore, the paper assesses their current social role and how this has changed after the financial collapse.[4]

In brief, between 2010 to 2021, expatriates' inflows remained relatively stable over time. This stability is largely a function of the constant emigration, which, by itself may indicate that successive governments have failed to decelerate the brain drain and adopt policies that promote inclusive growth and create jobs. In general, patterns of economic growth in Lebanon have not affected the level of remittances, however, the latter is strongly affected by economic development in the senders' countries. For instance, the level of remittances to Lebanon is highly shaped by the fluctuation in oil prices, given the concentration of emigrants - including diaspora communities - in oil producing countries, notably the Gulf Cooperation Council (GCC) countries (around 40 percent). While the increasing cost of transferring remittances to Lebanon has not reduced its overall size, it did cause a shift from formal to informal channels (i.e., in person cash handouts) through which remittances are received. As for their impact, remittances were often used to provide familial support, in the form of cash and food assistance. Today, remittances appear to serve as a social safety net strictly, by way of financing household access to basic goods and services, partially compensating for the accumulated losses in purchasing power and loss in income triggered by currency depreciation and soaring inflation. The constant flow of remittances indicates a solid connection between expatriates and their home countries, and more specifically their home towns. This is confirmed by the local-level investments flowing into several Lebanese towns and municipalities to support local development initiatives.[5]

1. Kasparian, C.2014. "L'Apport financier des émigrés et son impact sur les conditions de vie des libanais."
2. Lebanon's banking secrecy law hinders our ability to distinguish between Lebanese and non-Lebanese NRDs. However, similar to the Lebanon Economic Vision (referred to as Mckinsey plan) prepared for the Lebanese government, it is assumed that most NRDs originate from expatriates and hence reflect the dynamics of the diaspora's investment in the financial sector.
3. Bidawi, H. 2020. "Large Devaluation and Inequality: The Case of Lebanon."
4. There are no official estimates covering the annual number of Lebanese citizens who are emigrating. However, a recent study by Information International (2022) indicates that the number of emigrants reached 215,653 individuals over the period 2018-2021. The number witnessed a sharp increase rising from 18,863 in 2018 to reach a high figure 79,134 in 2021. The study based its estimates on the number of arrival and departure statistics released by the Directorate General for General Security.
5. There is no official estimate of the level of Diaspora's funds flowing to serve local communities. For instance, UNDP's "Live Lebanon" initiative alone managed to raise around USD 5 million over the period 2009-2018 that were invested in local development initiatives.

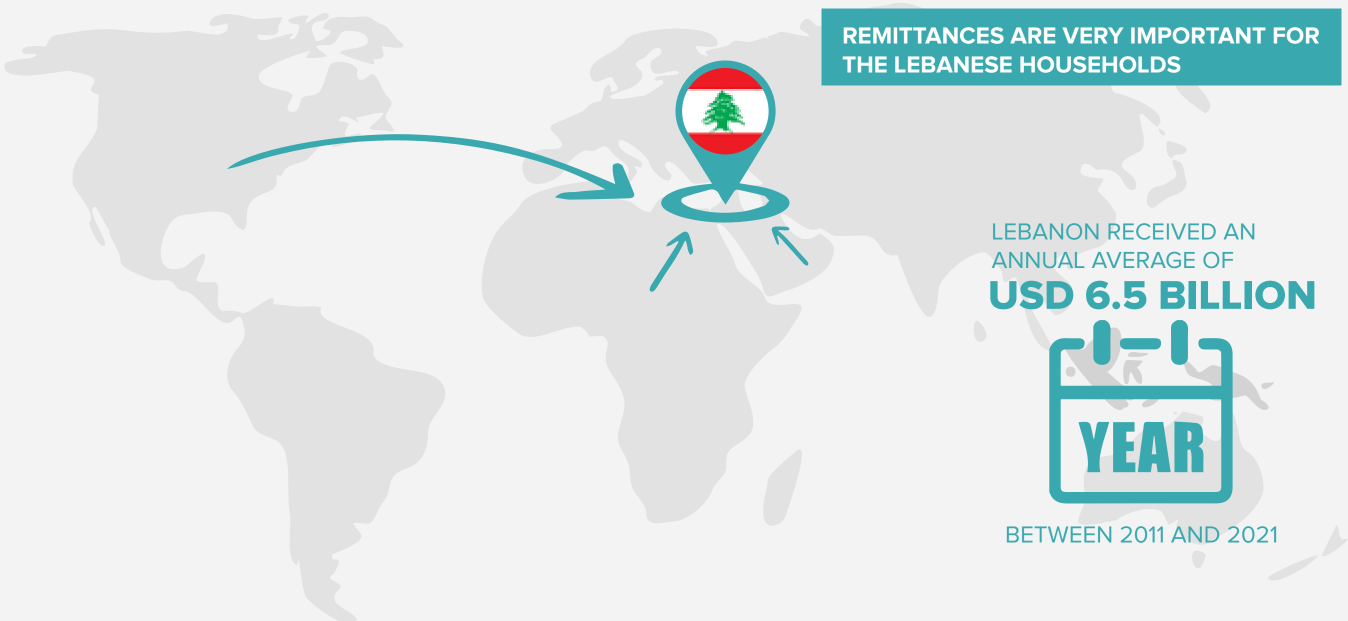
The remainder of this paper is organized as follows: Section I unpacks the definition and measurement of remittances. Section II provides an overview of remittances and their contribution to the economy. In section III, the paper examines the macro and micro determinants of remittances. Section IV offers a critical analysis of the socio-economic contribution of these inflows before and during the collapse of the Lebanese financial system. Section V proposes recommendations that aim to smoothen the flow of remittances and optimize their social and economic impact on households.

1. DEFINING AND MEASURING REMITTANCES

In order to get a proper understanding of the determinants or drivers of sending remittances, there is a need to have a clear definition of what constitutes as remittances and how they are measured. Remittance inflows are often ambiguously defined and computed in the literature, leading to a misspecification of their economic and social impact. To address the latter, this section starts by presenting two main definitions of remittance inflows, one adopted by the Central Bank (BDL) and the other by the International Monetary Fund (IMF). By doing so, the paper carefully characterizes remittances by drawing on key differences between international and local understandings of such an inflow. Second, this section highlights key measurement issues that researchers and policymakers should be wary of.

According to the International Monetary Fund (IMF), remittance inflows are broadly defined as follows: "Remittances represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies. Remittances include cash and noncash items that flow through formal channels, such as via electronic wire, or through informal channels, such as money or goods carried across borders. They largely consist of funds and noncash items sent or given by individuals who have migrated to a new economy and become residents there, and the net compensation of border, seasonal, or other short-term workers who are employed in an economy in which they are not resident".[6]

In contrast, BDL offers a specific but conceptually unclear definition for remittances. It defines remittances inflows as "all current transfers carried out between migrants working in their new economy and their country of origin. These transfers, which are often in the form of a familial financial aid, are recorded as remittances provided the residency period of the migrant in the new economy is at least one year."[7] Unlike the IMF definition, BDL states a purpose as part of the definition of remittances which is "familial aid" without clarifying what this entails and qualifies it to be "often" with no clear measure of what that means. Furthermore, it imposes a one-year residency condition by the migrant for the transfer to be qualified as "remittances".



6. International Monetary Fund (IMF), Balance of Payment and International Investment Position- Sixth edition (BPM6), 2009
7. Banque Du Liban. 2018. "External Sector Statistics Methodology." https://www.bdl.gov.lb/downloads/download/109/en

Such a conceptualization leaves a space for open interpretation, as evidenced by both academic and non-academic research on the topic. For example, Chami et al. (2018) have argued that "remittances are person-to-person transfers motivated by family ties [...] to help relatives back home afford the necessities of life." But others have classified remittances as a tool for investment in Lebanese banks (through financial deposits). In a 2017 study examining the relationship between Lebanon-bound remittances and oil prices, the IMF argued that remittance inflows through bank deposits accounted for only 27 percent of the total between 2011 and 2017. Similarly, Awdeh (2015) and Fakih et al. (2017) argue that remittance inflows boosted non-resident deposits in Lebanese banks during the past decade.[8] Based on available evidence, it thus became clear that remittances and non-resident deposits, defined by BDL as those made by individuals who do not own a Lebanese address, should not be lumped together when analyzing remittances-development dynamics.

The ambiguity in defining and characterizing remittances has also been coupled with inaccurate statistical measurement, clouding conclusions about their real impact on society and the economy. According to Chami et al. (2008), researchers tend to sum worker remittances, employee compensation, and migrants' transfers, all of which go under Balance of Payment (BOP) accounts, and denote those as remittances (table 1).[9]

Table 1: Measurement of remittances

Item	Measurement
Worker remittances	Current transfers made by migrants employed in any host country. These remittances usually concern people who are relatives, according to the fifth edition of BoP manual.
Employee compensation	Current account items such as wages, salaries, and other benefits earned by individuals in foreign countries for work they have done for and paid for by residents of the country.
Migrants' transfers	Transfers that are recorded in the capital account of BoP under capital transfers of non-governmental sectors. Those often relate to change in financial items that emerge due to the change in migrant residence.

To this end, any future analysis of remittances should primarily focus on the worker remittances category of the BoP as it best captures money sent by migrants for familial support. Migrants' transfers and employee compensation exhibit a different behavior and tend to have asymmetric effects on the macroeconomic conditions in any specific country:

Migrants' transfers: When migrants decide to return home after being employed abroad, they are inclined to transfer accumulated assets throughout the process. Even though their temporary presence abroad might contribute to modest increases in remittances, the final transfer of their own accumulated assets or financial items that result from such emigration accounts counts as a private capital flow, and not a remittance. Non-resident deposits in the Lebanese banking sector are one good example of these transfers.

Employee compensation: This BoP item reflects wages, salaries, and benefits for work earned by non-resident individuals and paid by resident employers. It also records payments received by residents from non-resident institutions or companies. Hence, employee compensation does not count as a formal transfer. The assumption that such compensation is a transfer between residents and non-residents—remittance— is thus not accurate. Using this measure will likely overstate the flow of remittances to Lebanon.[10]

8. Such studies include the following: International Monetary Fund. "Oil-Price Spillovers in Lebanon: The Role of Remittances", Abosedra, S. and Fakih, A. 2017. "Assessing the Role of Remittances and Financial Deepening in Growth: The Experience of Lebanon", Tierney, J. 2015. "The Diaspora, Debt, and Dollarization: Unraveling Lebanon's Resilience to a Sovereign Debt Crisis", and Awdeh, A. 2014. "Remittances to Lebanon: Economic Impact and the Role of Banks"
9. See Chami et al. 2008. "Macroeconomic Consequences of Remittances" International Monetary Fund. Some examples include the World Bank's Global Economic Prospects (2005), the IMF (2005), and papers by Aggarwal, Demirgüç-Kunt, and Martinez Peria (2006) and Giuliano and Ruiz- Arranz (2005).
10. Kapur. 2003. "Remittances: The New Development Mantra?"

According to BDL, remittances reach the country through both formal and informal channels. Formal channels are of two types: (i) transactions that reach the banking sector and (ii) cash electronic transfers wired through money transfer operators. In order to compile data on remittances reaching the banking sector, BDL relies on the International Transactions Reporting System (ITRS), which is a monthly survey addressed to the resident banking sector to report transactions taking place with non-resident banking or financial sectors, as well as transactions from/to non-resident accounts at resident banks. This indicates that BDL includes migrant transfers— a private capital flow— when computing their total remittance figure. Additionally, to track remittances that are sent through money transfer operators, BDL similarly conducts monthly survey sent to money transfer companies “to collect monthly cash electronic transfers wired from Lebanon to abroad and vice versa.”[11]

Unlike other countries in the region such as Jordan, Lebanon includes informal sources such as cash in its computation of remittances. To this end, BDL has developed a demographic model of Lebanese emigrants that relied on a 1972 study by Boutrous Labaki. The model is updated on a monthly basis using the data from the General Security and Ministry of Labour.[12] According to BDL, the model relies specifically on the following sources to compile remittances statistics:

1. Monthly numbers of movements of Lebanese residents broken down by country of destination and gender. The data is provided by the General Directorate of General Security (GS).
2. Stock of Lebanese emigrants which is regularly updated with flows of GS departures.
3. Living cost figures (expenditure data) in Lebanon to estimate informal remittances.

It is worth noting that bank transfers between resident and non-resident accounts are assigned a certain code that characterizes their function. This means that financial deposits would have a code that is differentiated than that of remittances. This coding system also applies to transfers received through money transfer operators (like OMT).

To reduce measurement error, and in line with Chami et al. (2008) and Amjad (1986), non-resident financial deposits are not included when studying the drivers and/or implications of remittances on the macroeconomy and society.[13]

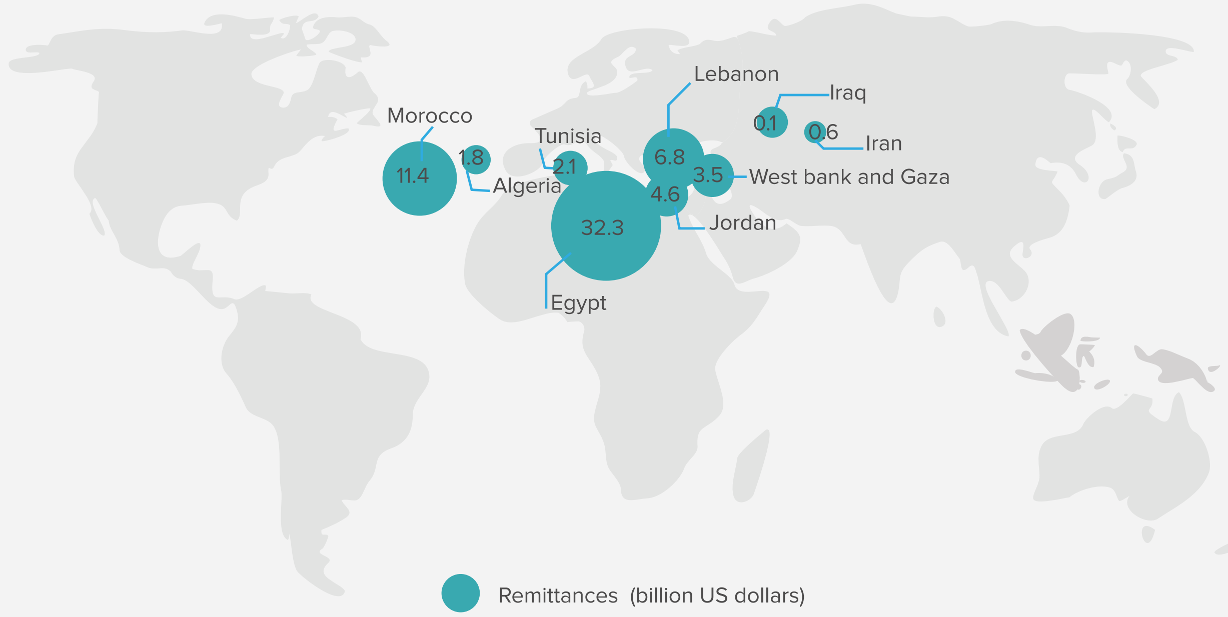
11. Banque Du Liban. 2021. “External Sector Methodology”
12. This model is currently being updated. The update targets many indicators, to name a few: number of Lebanese migrants per country abroad, GDP of host countries, inflation in Lebanon, pandemic indicators, exchange rate, and others.
13. Amjad, R., & Ahmed, M. 1986. Impact of Workers’ Remittances from the Middle East on Pakistan’s Economy: Some Selected Issues. The Pakistan Development Review, 25(4), 757-782.

2. Remittances in Lebanon

This section assesses the magnitude of remittances in the Lebanese economy in absolute and relative terms. To this end, it unpacks the volume of remittances in comparison to other countries as well as over time. It also highlights the significance of remittances as a source of hard currency.

After losing more than 50% of its GDP in 2021 due to the deep financial and economic crisis, Lebanon’s remittances relative to GDP consisted of 37.8% in 2022[14] having the highest remittances to GDP ratio in the MENA region. Lebanon was the 3rd highest recipient of remittances in value in the MENA region, preceded only by Morocco and Egypt (figure 1). It is worth noting, however, that these calculations are based on World bank data, which deals with remittances in a broader sense.[15]

Figure 1: Top Arab countries recipient of remittances in absolute terms and as a share of GDP in 2022e (USD)

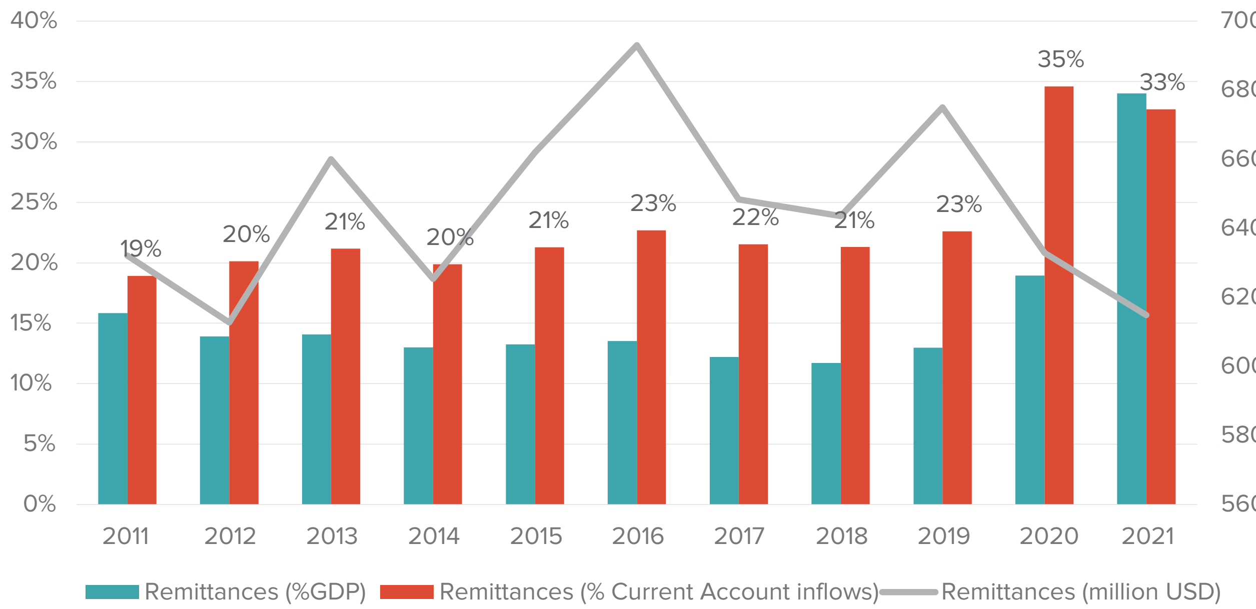


14. “World Bank Group, 2022, “Remittances brave global headwinds”. KNOMAD.
15. According to the World Bank, personal remittances comprise personal transfers and compensation of employees. Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from nonresident households. Personal transfers thus include all current transfers between resident and nonresident individuals. Compensation of employees refers to the income of border, seasonal, and other short-term workers who are employed in an economy where they are not resident and of residents employed by nonresident entities.

Despite the large jump relative to GDP, Lebanon's remittances inflows—in absolute nominal terms—have been relatively stable over the past decade, varying between $6 billion and $7 billion per year between 2011 and 2021, with an average of around $6.5 billion per year. The financial crisis and the COVID-19 pandemic did not have a noticeable effect on the inflow of remittances, with their levels remaining mostly constant since 2019.

The growing importance of remittances in the Lebanese economy is not only demonstrated by their size relative to GDP, but also in their share out of total current account inflows to the country. In fact, between 2011-2021 remittance inflows represented 23% of Lebanon's current account inflows, according to BDL data. The share of remittances has sharply increased in 2020 as a result of the economic downturn and the decrease of other transfers, reaching 35% of current account inflows in foreign currencies (figure 2). The figure slightly dropped in 2021, recording 33%.

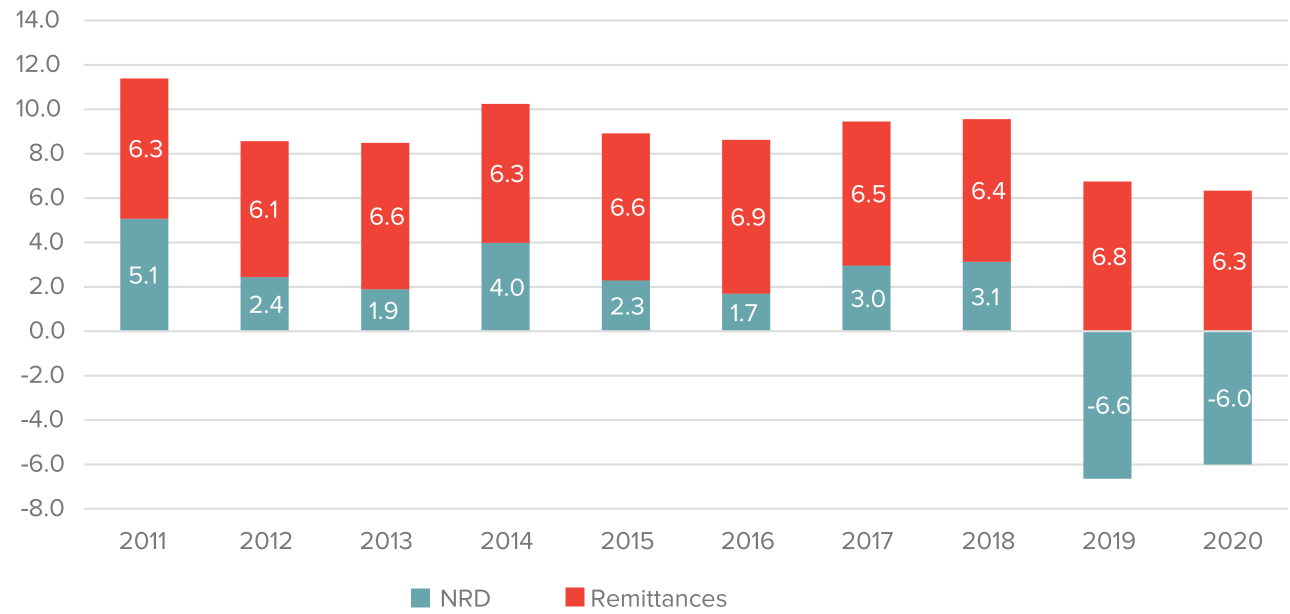
Figure 2: Remittances in Lebanon, 2011 – 2021 (USD)



Source: Author's calculations based on BDL data.

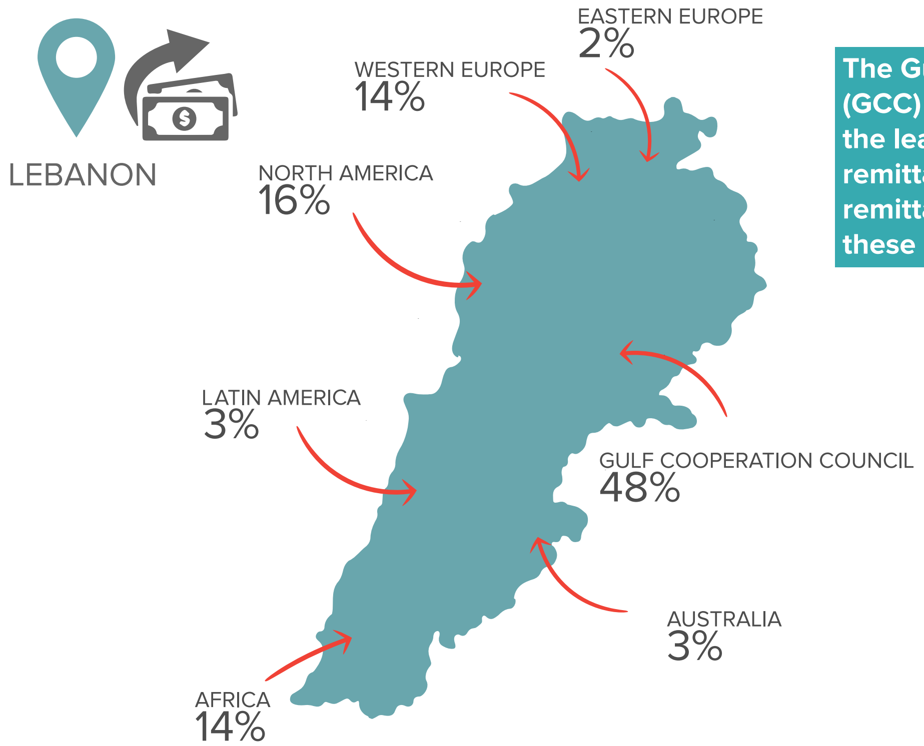
Furthermore, remittances have outperformed non-resident deposits over the years. While the latter injected around $2 to $5 billion a year between 2011 and 2018, remittances played a more robust role in the economy (figure 3). In the past two years, non-resident deposits turned negative as a net outflow of $6.6 billion was reported in 2019 and another $6 billion in 2020.

Figure 3: Remittances and non-resident deposit, 2011 – 2020 (USD)



Of note, the Lebanese diaspora are spread all over the world and remittances flow from different origins, however at varying rates. The Gulf Cooperation Countries (GCC) are considered as the leading source of these remittances, with 48% of remittances originated from these countries. North America comes second (16%), followed by Western Europe (14%), Africa (14%), Australia (3%), Latin America (3%), and lastly Eastern Europe (2%).[16] According to official data based on BDL estimates, 64% of total inflows that reached Lebanon in 2020 came from United States, United Arab Emirates, Saudi Arabia, Australia, and Kuwait.[17] Banking data on nationality of non-resident deposit account holders is scarce. But it is assumed that the origin of non-resident depositors is similar or comparable to that of those who send worker remittances.

Figure 4: Distribution of remittances across the world, 2021



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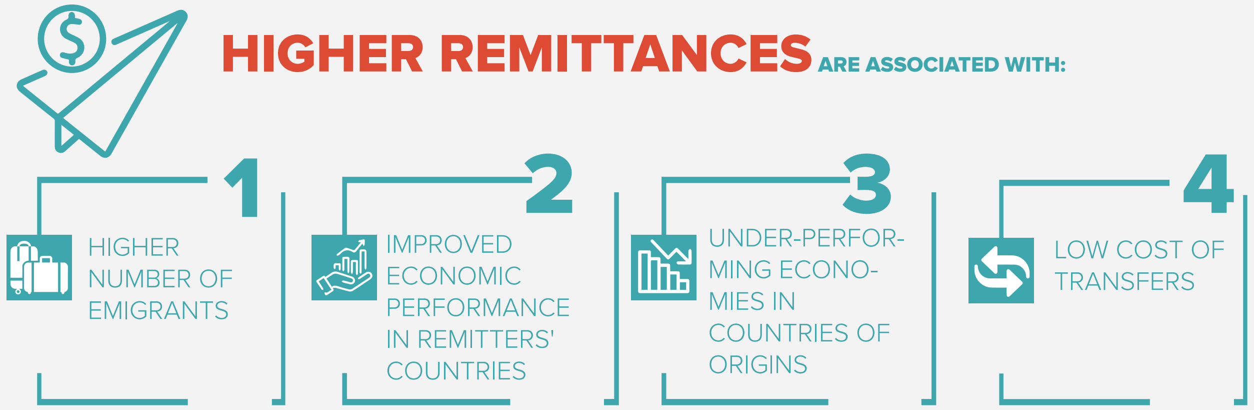
16. The estimates are based on interviews with key informants.
17. Lebanon's Central Bank, Ministry of Foreign Affairs, IDAL, and Order of Engineers, and IDAL and Central Bank data.

3. DETERMINANTS OF THE FLOW OF REMITTANCES TO LEBANON

Given the increasing role of remittances in Lebanon, it is important to assess their determinants. To this end, the section firstly identifies the key factors that affect remittances. This is then followed by an assessment of the factors that shaped the size of remittances in Lebanon taking into account data availability. As such, this section examines the relationship between remittances and four key variables: (i) Lebanon's migration profile, (ii) domestic economic characteristics, (iii) oil prices as a proxy for global economic trends, and (iv) the cost of remittances.



1. Lebanon's migration profile

By definition, remittances are transfers of money from migrants to their home country. According to Chami et al. (2008), microeconomic variables such as migrant and family income, education, migrants' length of stay in a host country, the size of their family in the home country, and number of other migrants in the family, as well as stock of migrants, determine the level of remittances.

The high volume of Lebanese expatriates/diaspora abroad certainly plays a central role in determining the flow of remittances into Lebanon. It is estimated that around 880,000 Lebanese migrants resided outside Lebanon in 2014. [18]This number has certainly increased since, particularly with the worsening economic situation in the country. More than 100,000 people emigrated out of Lebanon in the past three years alone.[19] According to a Gallup poll completed following the financial collapse, more than 60% of respondents expressed a desire to emigrate as soon as it is possible for them to do so, which is almost three-fold higher than figures from preceding years.[20] The latest data from the Lebanon Follow-up Labor Force Survey of January 2022 also indicates that a staggering 52% of the population plans to emigrate.[21]

According to a study by the European University Institute (2017) profiling Lebanese migration,[22] Lebanese emigrants in 2014 were mostly concentrated in Arab countries (40%), particularly the Gulf States (37% of total) (table 2). Around a quarter resided in North America, and 21% in Europe, while 16% were distributed in other regions in Australia, South America, and Africa.[23]

18. It is worth noting that migrants comprise a population born abroad, independent of nationality. Diaspora is a group living abroad that often maintains deep ties with their country of origin. When we are talking about remittances, diaspora/expatriates are the key migrant subpopulation of interest.
19. Amara, H. 2022. "هجرة الشباب اللبناني بحثا عن مخرج للأزمة «تهدد مستقبل البلاد وتفقدها مواهبها»" France 24.
20. Noureddine, A. 2022. "Financial Meltdown Main Culprit Behind Lebanon Mass Emigration" Fanack.
21. Central Administration of Statistics. 2022. "Lebanon follow-up Labour Force Survey January 2022"
22. Françoise De Bel-Air. 2017. "Migration Profile: Lebanon". European University Institute
23. It was not possible to conduct further socioeconomic or gender analysis of migration due to limited data availability.

Table 2: Number of Lebanese emigrants by main host region

Country	Number of Lebanese Migrants	% Of total
Arab Countries	**353,886**	**40%**
Gulf States	329,886	37%
Saudi Arabia	160,000	18%
UAE	100,000	11%
Kuwait	42,586	5%
Qatar	25,000	3%
Bahrain	2,300	0%
Other Arab	24,000	3%
North America	**200,595**	**23%**
US	119,490	14%
Canada	81,105	9%
Europe	**186,057**	**21%**
Germany	62,000	7%
France	35,055	4%
Sweden	25,699	3%
United Kingdom	14,000	2%
Denmark	12,427	1%
Other Europe	36,876	4%
Other Countries	**140,000**	**16%**
Total	**880,538**	**100%**

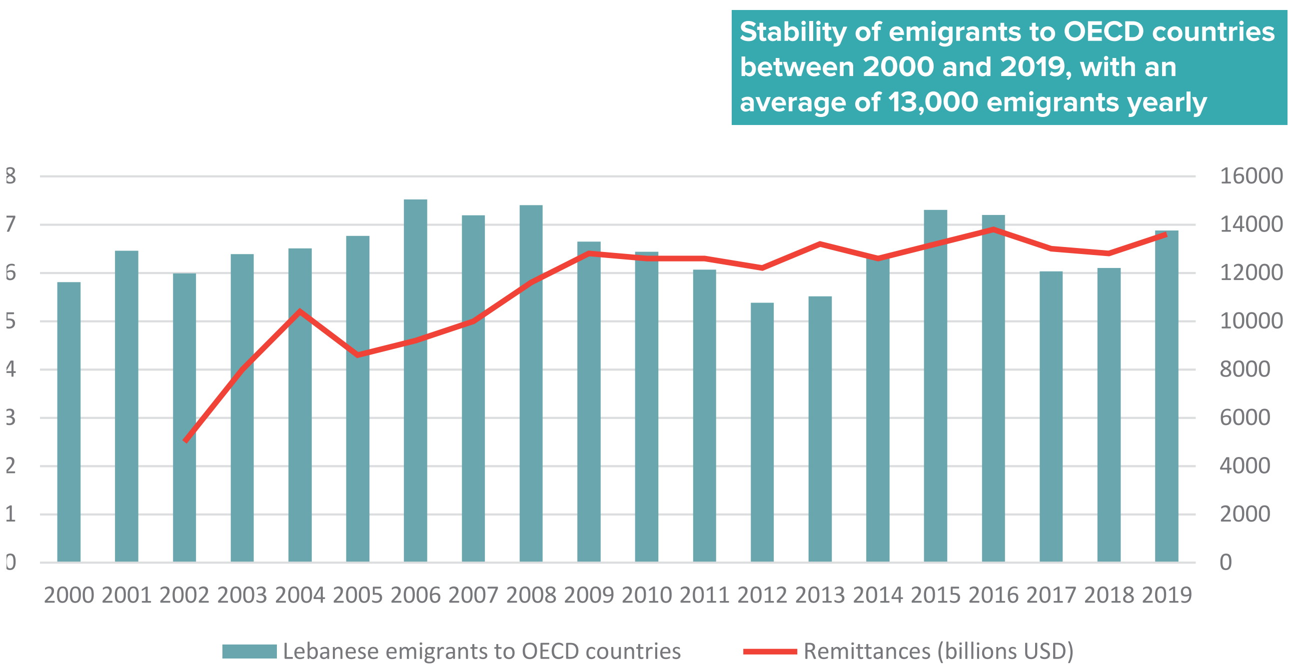
Source : Françoise De Bel-Air. 2017. "Migration Profile: Lebanon". European University Institute

A body of literature suggests that remittances "decay" as emigrants spend more time in their host economy and lose ties with their countries of origin.[24] This is evidenced by data on remittances which typically exhibits a U-shaped pattern, indicating a non-linear relationship between remittances and growth, with an inflexion point at around 5 and a half years spent in the new economy. However, this does not seem to be the case in Lebanon, as remittances have remained relatively stable since breaking the $ 6 billion/year mark in 2009 (figure 5).

This stability is largely driven by a continuous flow of emigrants yearly, with new waves offsetting the drop-in remittances activity from their older waves. Figure 5 presents an illustration of this fact and shows the relative stability of emigrants to OECD countries between 2000 and 2019, with an average of 13,000 emigrants yearly.[25]

24. Daniel, M. et al. 2014. "The time pattern of remittances and the decay hypothesis: Evidence from migrants in South Africa"
25. Organisation for Economic Co-operation and Development. 2022. "International Migration Database".

Figure 5: Lebanese emigrants to OECD countries, 2000 – 2019



Source: OECD, International Migration Database and Banque du Liban, Statistics and Research

2. Lebanon's economic characteristics

In order to identify the behavior and contribution of remittances flowing into Lebanon, this section aims to unpack the specific macro-economic determinants that incentivized expatriates to send money in the form of remittances.
Informed by the literature, Chami, Fullenkamp, and Jahjah (2005) investigate the extent to which GDP and interest rate differentials (compared to US) trigger or depress remittances.[26] In their study, they detect a compensatory/altruistic nature of remittances rather than an opportunistic one. Naoyuki, Farhad, and Miyu (2019) argue that the real effective exchange rate, the level of education, trade openness, and political stability are positively correlated with remittance inflows to Middle-Income Countries in Asia and the Pacific.[27] Similar to Chami, Fullenkamp, and Jahjah (2005) and Schiopu and Siegfried (2006) also argue that a negative income gap between host and home countries increases average remittances from Western Europe, though the interest rate differential does not seem to have a large effect, implying an altruistic function of remittances.[28] Particularly, the focus of this section will be on GDP growth and the country's exchange rate regime.

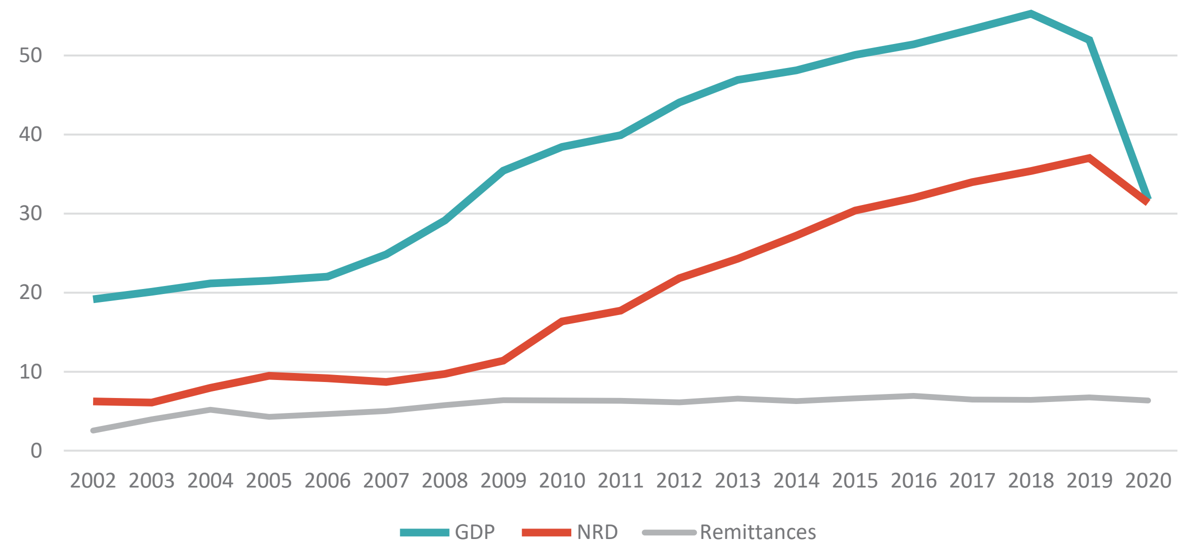
GDP and diaspora inflows

In the case of Lebanon, there is no relationship between remittances and GDP (figure 6).

This is in contrast to non-resident deposits and GDP which exhibited a stronger relationship. This difference echoes the distinct functions of each of these inflows – while remittances are driven mostly by altruist intentions i.e., social support to relatives and friends, non-resident deposits constitute a portfolio choice i.e., driven by favorable investment conditions.

While remittances have remained largely stable regardless of the changes in macroeconomic conditions, even after the crisis in 2019, NRDs exhibit a pro-cyclical relationship with GDP as conditions seemed favorable for investments in the banking sector. This further motivates the need to disentangle the effect of remittances on the economy from that of NRDs. Of note, the constant flow of remittances may be the outcome of two opposing forces: The first is the decrease in remittances due to Covid-19 which was then offset by an increase in these inflows due to the drop in income as an outcome of the financial crisis.

Figure 6: Remittances, NRD, GDP trends, 2002 – 2020, (USD)

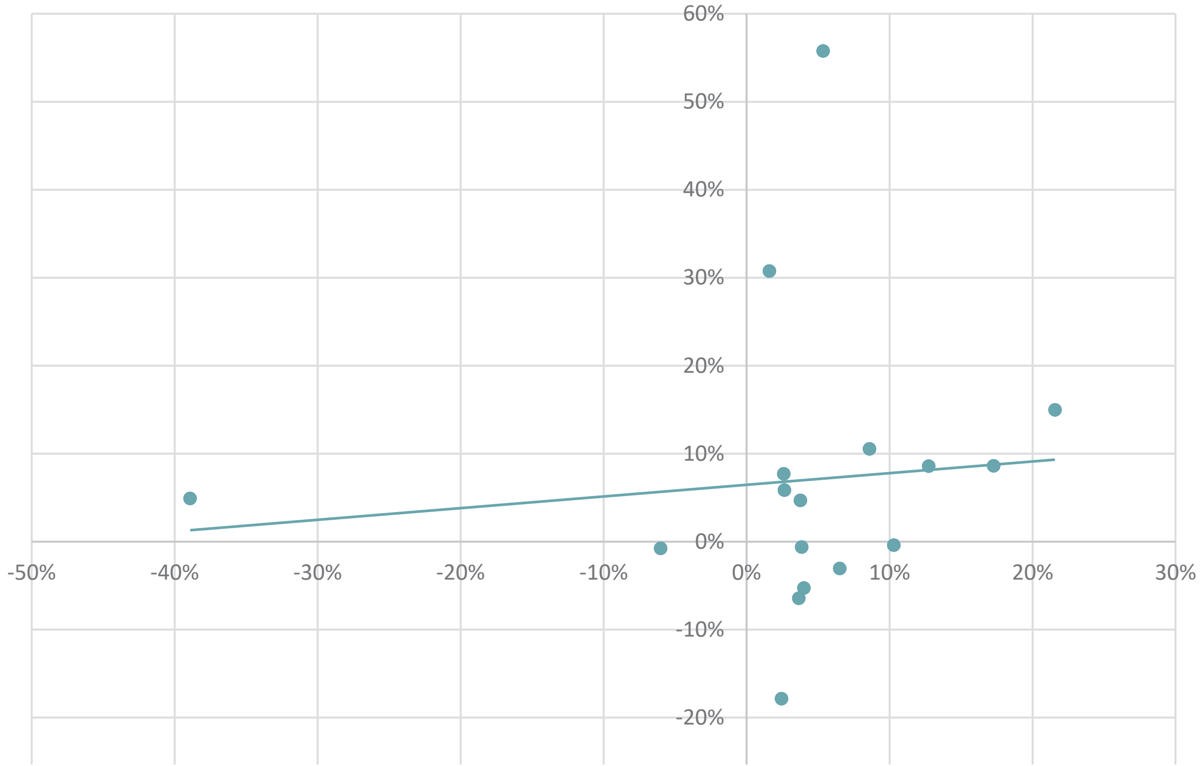


Source: Banque du Liban, Statistics and Research and World Bank, World Development Indicators

26. Chami, Fullenkamp, and Jahjah. 2003. "Are Immigrant Remittance Flows a Source of Capital for Development?"
27. Naoyuki, Farhad, and Miyu. 2019. Determinants of International Remittance Inflows in Middle-Income Countries in Asia and the Pacific.
28.Schiopu and Siegfried. 2006. Determinants of workers' remittances: Evidence from the European Neighboring Region. " European Central Bank.

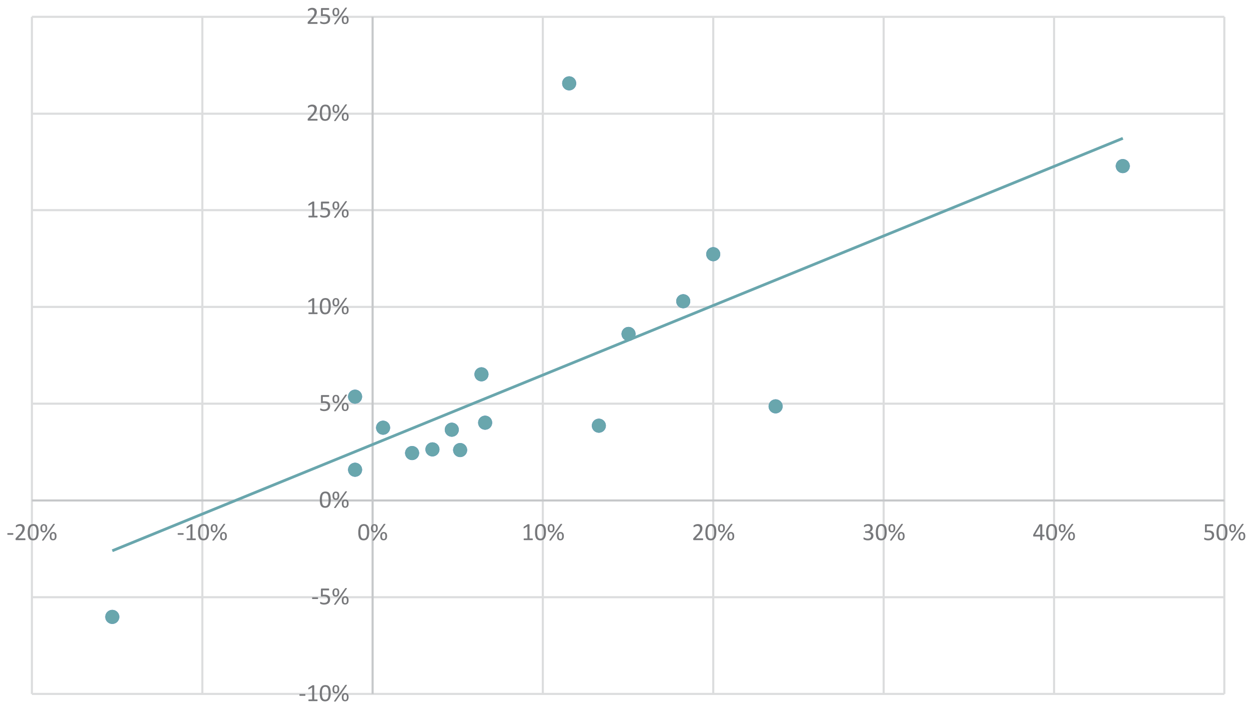
Plotting each of remittances and NRDs against GDP over the past 10 years highlights this relationship further. Figure 7 shows almost no clear relationship between remittances and GDP, while, on the other hand, NRDs and GDP have a strong positive relationship in figure 8.

Figure 7: Correlation between change in remittances and change in GDP, 2010 – 2020



Source: Author's calculations based on central bank and World Bank data

Figure 8: Correlation between change in NRD and change in GDP, 2010 – 2020

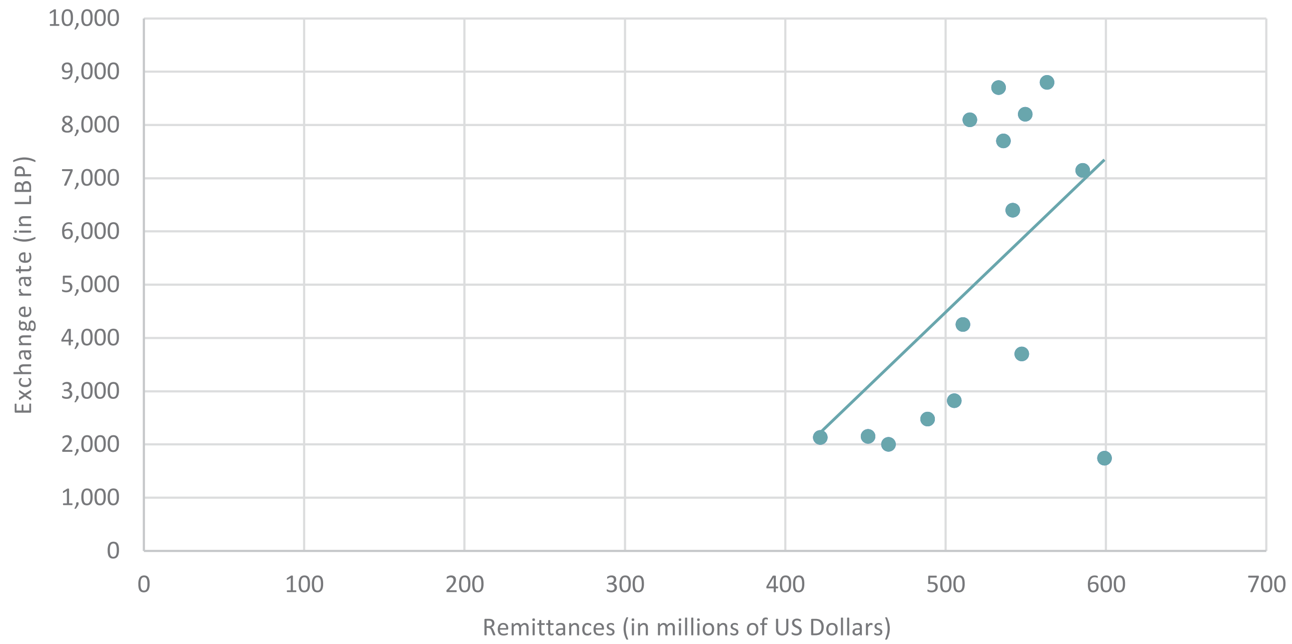


Source: Author's calculations based on Central Bank and World Bank data

Exchange Rate

Before the crisis, the currency peg also created an artificially stable monetary environment that was conducive for financial investments from expatriates' and created a hedge for capital gains made in LBP. However, following the collapse of the financial sector, while investment inflows have stopped, the devaluation of the currency seems to have incentivized expatriates to send money to their home country, thus supporting an altruistic characteristic of remittances[29]. Given that Lebanon's currency has lost more than 95% of its value, the flow of remittances became a hedge against the loss in purchasing power, a phenomenon observed in other developing countries.[30] When plotting Lebanon's exchange rate against the level of remittances in Lebanon between October 2019 and December 2020 (figure 9), a positive relationship arises. In other words, remittances increase as the currency depreciates.

Figure 9: Correlation between exchange rate and remittances between 2019 and 2020



Source: Author's calculations based on central bank and parallel market rate data

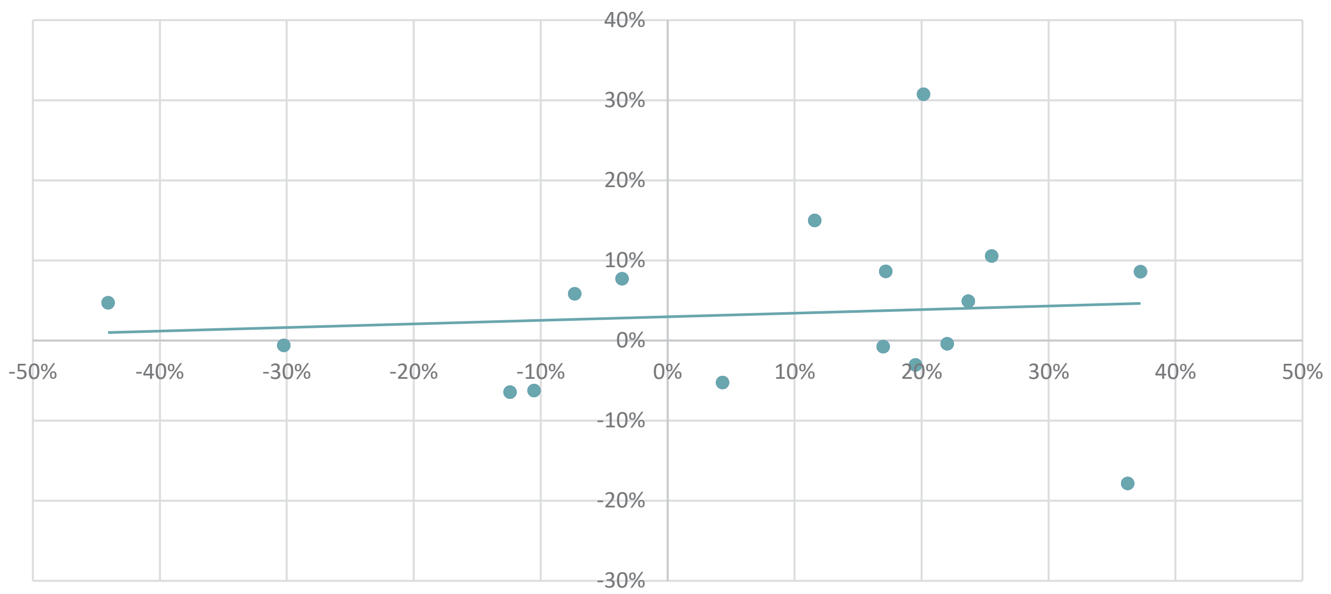
3. Oil Prices

Oil prices influence inflows around the world. High oil pricing indicates an increased demand for oil globally which usually coincide with periods of rapid global growth. Moreover, higher oil prices reflect positively on oil-exporting economies such as GCC to attract investment, create jobs, and boost economic growth and thus hire more migrant workers.[31], [32]. This would also drive-up expenditures on the non-traded sector, which leads to the importation of labor or migration of human capital from developing economies reporting low income and high disparities, such as Lebanon.

As 48% of remittances originate from GCC countries alone,[33] a decrease in oil prices may distort the flow of remittances to Lebanon, presumably through the effect of that on expatriate'' incomes. The contrary is also true, as similarly shown in figure 10 that highlights the positive relationship between oil prices and remittances.

29. It is assumed that the same amount of remittance has a higher purchasing power after the crisis compared to the pre-crisis period. This is mainly driven by the exchange rate deterioration and by the fact that over the past period, the pass-through effect from exchange rate to consumer prices was not full. This passthrough effect was refrained by several factors: the broad subsidy scheme, maintaining and official exchange rate at 1,500 for wide array of transactions including taxes and fees (e.g., customs), prices of key services kept unchanged (telecommunication), etc..
30. Adenutsi, D. and Ahortor, C. 2021. "Macroeconomic Determinants of Remittance Flows to Sub-Saharan Africa."
31. International Monetary Fund. 2017. "Oil-Price Spillovers in Lebanon: The Role of Remittances."
32. Ruiz-Arranz and Lueth. 2007. "Are Workers' Remittances a Hedge Against Macroeconomic Shocks? The Case of Sri Lanka." International Monetary Fund.
33. Kasparian, C.2014. "L'Apport financier des émigrés et son impact sur les conditions de vie des Libanais."

Figure 10: Correlation between oil prices on remittances, 2010 – 2020



Source: Author's calculations based on central bank and Yahoo finance data

The volatility of oil prices, alongside a spike in global inflation, may prove detrimental to remittance inflows into Lebanon. Faced with steep inflation and financial market instability, consumer and market expectations will likely take the hit, which could negatively impact remittance flows to the MENA region, including Lebanon.[34] To this effect, the increase in oil prices (up by 40% compared to 2021) may either pose a risk or an opportunity for Lebanon, driven by the effect of a change in oil prices on the size of remittances. For Lebanon, an oil-importing country, price volatility entails larger risks. A negative price shock might seriously distort the flow of remittances, which are partly used to finance imports, including oil imports.

34. World Bank. May 2022. "Implications of the Ukraine crisis and COVID-19 on global governance of migration and remittance flows", KNOMAD.

4. Cost of sending remittances

The flow of remittances is also associated with a certain cost that varies according to the delivery channel. The cost of a remittance transaction, usually incurred by the money sender, includes a fee set by the remitting agency. This cost may also include currency conversion fees. The cost is an important factor that determines sustainability of flow. Evidently, remittances are more likely to increase when transfer costs are less.[35]

In times of crisis, remittance costs become a regressive form of taxation. According to the World Bank, the price of a remittance transfer is contingent on the amount being sent, the type of transaction, channel, and the corridor (i.e., country of origin). Furthermore, the cost structure of remittances is not transparent as remitters are poorly informed about the exact price of any specific transaction, which may in turn affect the size of transfer being sent from abroad.

According to the World Bank, the average cost of remitting to Lebanon remains significantly higher than the global average, 11% compared to 6%, and much higher than neighboring MENA countries. For example, the cost of transferring $200 to Egypt and Jordan, two of the MENA countries with the highest share of remittances to GDP, is only 5% (figure 11). [36]

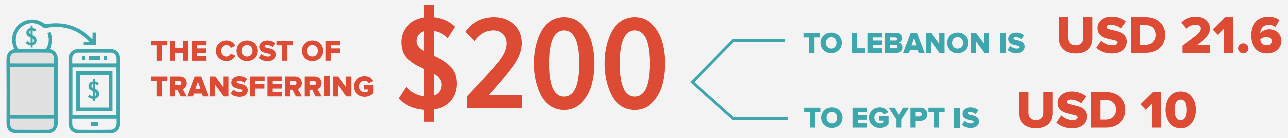
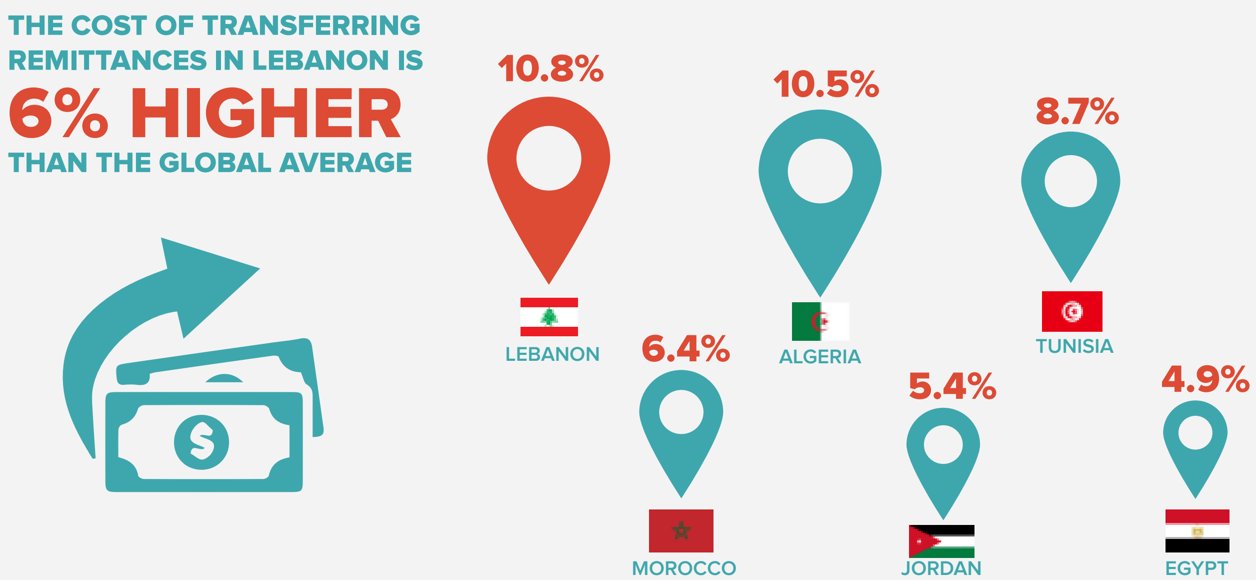


Figure 11: Average transaction cost of sending remittances in selected MENA countries (%)



Source: World Bank (2020).

It is also worth noting that Lebanese banks have been accruing withdrawal fees (collected by banks) on transfers from abroad, which further increases the cost on the recipient and not only the sender. According to a senior banking sector staff member, these commissions on withdrawals are justified by the fact that banks are taking advantage of any income opportunity to stay afloat during the crisis. These commissions, hence, are similar to regressive excise taxes on social transfers to families in need in Lebanon. Moreover, the qualitative insights from interviews conducted with banking sector officials indicate that the relationship between the cost of transactions, including withdrawal fees, and the volume of inflows, is not yet clear due to lack of data. However there has been a spike in cash-based remittances according to evidence from BDL.

35. Gibson, J et al.2006. "How Cost Elastic are Remittances? Estimates from Tongan Migrants in New Zealand."
36. The average transaction cost of sending remittance to any country is computed by the World Bank as the average of the total transaction cost in percentage of the amount sent for sending $200 by each single remittance service provider.

Following the crisis, the Lebanese economy turned largely cash-based. This allowed money exchange operators (such as Online Money Transfer S.A.L. - OMT) and banks to purchase foreign currency remittances off residents in return for Lebanese lira.[37] Residents were, as a result, being lured to exchange their money for US dollars at the Central Bank "Sayrafa" exchange platform, as a means to build back foreign reserves, unsustainably though. To this effect, such an "informal" policy of channeling remittances back into the banking sector, with the aim of appreciating the value of the Lebanese pound, reduced inflows to pure financial transaction thus neutralizing their investment function.

The high cost of sending remittances has pushed migrants to send money through informal channels such as cash though a smaller amount has been transferred through money transfer operators (such as OMT). In other words, although the increasing cost of sending money did not reduce the overall size of remittances, it did cause a shift away from banks towards informal channels. Table 3 presents data on how remittances were distributed by channel according to studies published in 2014 (Kasparian), 2017 (IMF), and 2021 (BDL reporting). Expectedly, in 2021, the share of remittances that reached the country informally was recorded at 70%. Remittances were no longer being sent by expatriates through the banking sector (table 3).

Table 3: Distribution of remittances by channel according to different sources

	Kasparian (2014)	IMF (2017)	BdL (2021)
Banks	35%	27%	0%
Money Transfer Operator (MTO)	26%	14%	30%
Informal	39%	59%	70%

While the BDL does provide an estimation of the volume of remittances that reach the country informally, there are no guarantees about the accuracy and representativity of this data. Hence, this could drive spurious judgements about these inflows and their real effect on the macroeconomy.

37. In February 2022, the Central Bank of Lebanon issued a circular (numbered 614) to allow non-banking institutions such as money transfer operators (OMT) to act as money exchange offices. This has increased these offices' access to foreign currency, which has in turn directly affected the value of the Lebanese pound in real terms.

4. Remittances before and during Lebanon's cascading crises

In light of the importance of remittances in Lebanon, this section aims to understand their evolving role and impact on the Lebanese economy. To appreciate this changing role, we first assess the impact of remittances prior to the 2019 financial crisis followed by its current role.

Various studies have explored the social and economic impact associated with the flow of remittances. Amuedo-Dorantes (2014) argues that remittances can increase household welfare by smoothing consumption and easing credit constraints for households living in impoverished areas, thus reducing poverty.[38] However, she also argues that an overdependency on remittance inflows can reduce labor supply and inhibit economic growth. Chami et al. (2018) and Acosta et al. (2009) note that the flow of remittances also generates Dutch-disease like effects; a continuous flow of remittances often increases household consumption, drives prices up, and decreases export competitiveness.[39] As a result, the number of low-skill jobs in non-tradable sectors rises above those in tradable ones in a manner that stunts economic growth.

In what follows, we examine the role of remittances played in financing the country's import bill and households' access to consumption needs and human capital investments prior to the crisis. We then highlight how these inflows continue to flow into the country today, though with largely limited economic and social contributions.

Prior to the country's supply-side and demand-side shocks, triggered by the COVID-19 pandemic, the collapse of the financial sector and the port explosion, remittances served one main purpose. These inflows were used to provide social support by offering households additional income to finance consumption and investment in human capital and access to basic services. Remittances, which are now reaching Lebanon either through informal intermediaries or through money transfer operators, became mere transactions for survival in the crisis period, by financing and maintaining household access to essential goods and services. Furthermore, it is shown that following the crisis, barely any inflows were sent via the banking sector.

1. A Pre-crisis analysis: Remittances as a tool for social support and human capital investment

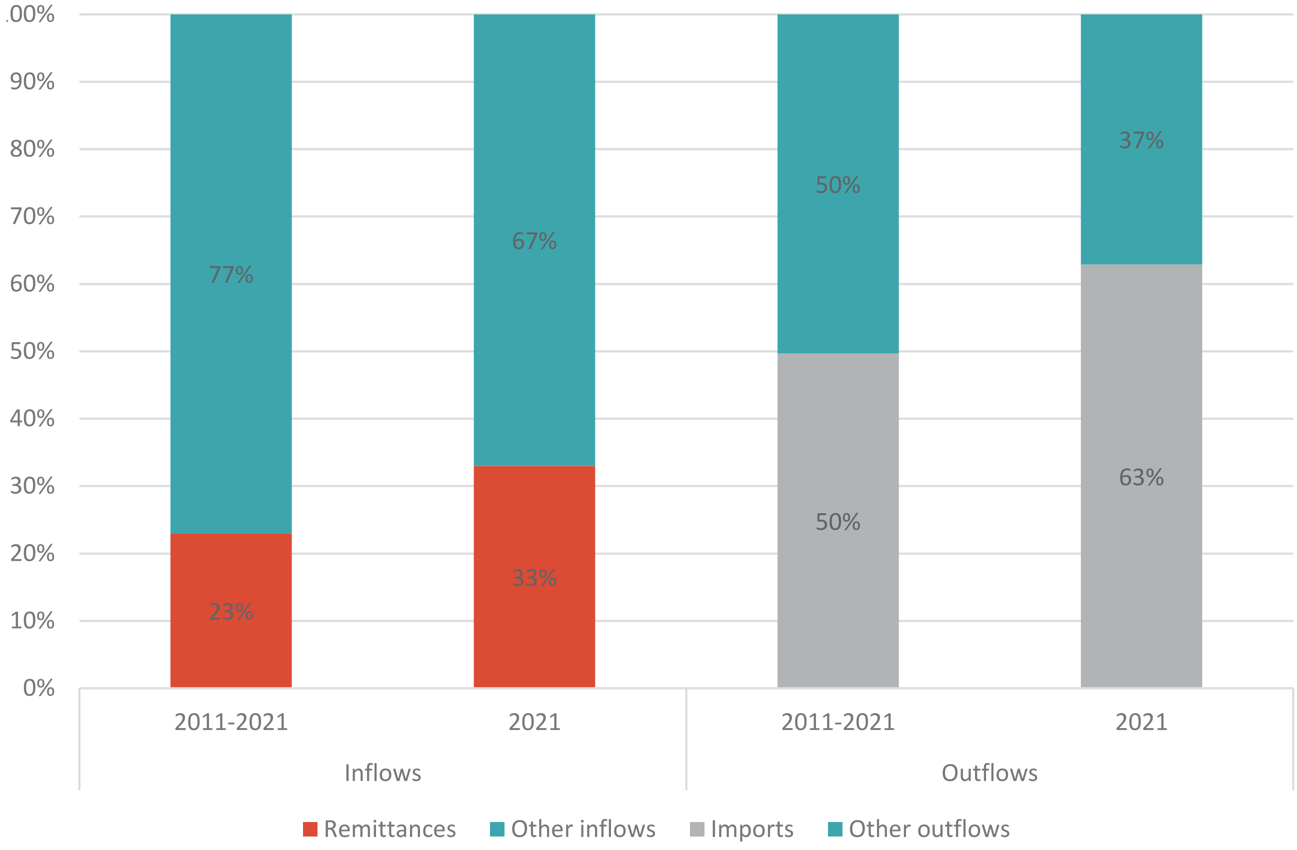
Remittances played a major role in shouldering Lebanon's economic and social organizations during the decade preceding the crisis. Our analysis suggests that remittances were found to be highly valuable in that they helped provide basic necessities to those in need, in the absence of an inclusive nationwide social policy. To this effect, this section aims to unpack the real contribution remittances to the Lebanese economy and social stability prior to the crisis to best understand their behavior today.

Financing the country's import bill

Lebanon's import bill was $207 billion, equivalent to 50% of all foreign currency outflows between 2011 and 2021. Remittances, which amounted to 23% of the country's total currency inflows between 2011 and 2021, were in part used to sustain the necessary level of imports by covering a part of the import bill. In 2020, the level of remittances spiked, while other foreign currency inflows plummeted. This persisted in 2021. A breakdown of current account data demonstrates this claim as shows in figures 12 and 13.

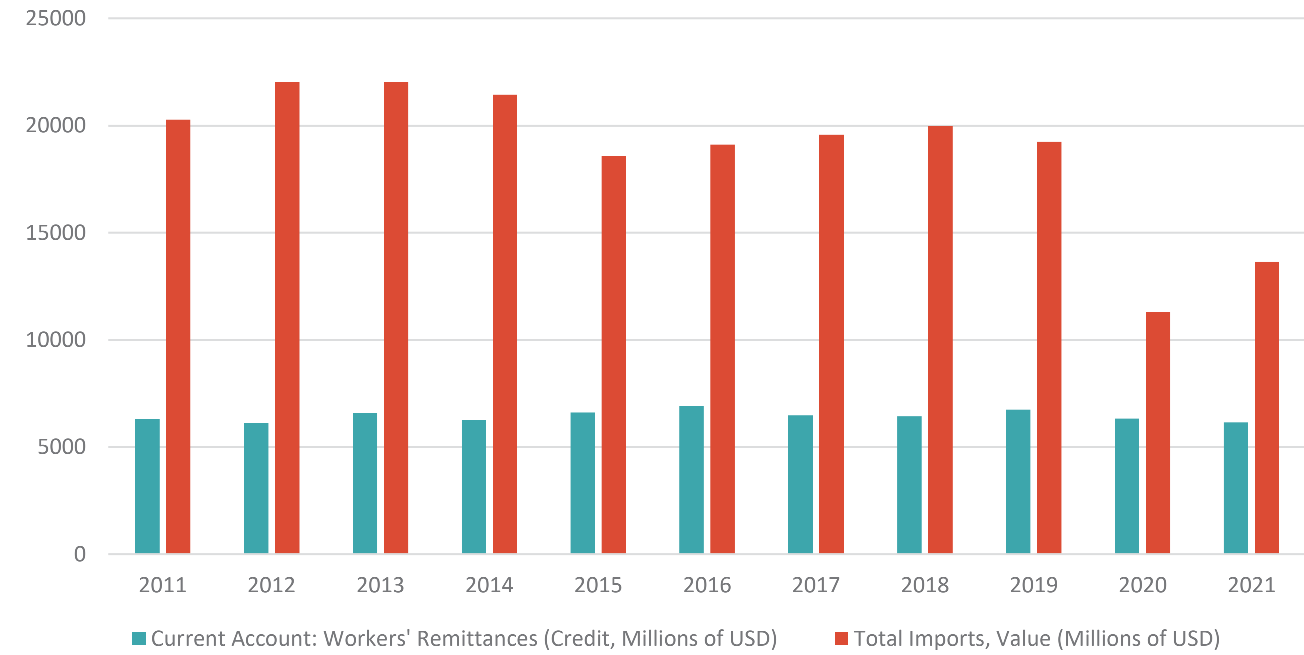
38. Amuedo-Dorantes. 2014. "The good and the bad in remittance flows".
39. Chami et al. 2018. "Is there a Remittance Trap?" The International Monetary Fund.

Figure 12: Composition of Lebanon's financial inflows and outflows between 2011 and 2021



Source: BdL current account (2011-2021).

Figure 13: Remittance inflows and Lebanon's imports



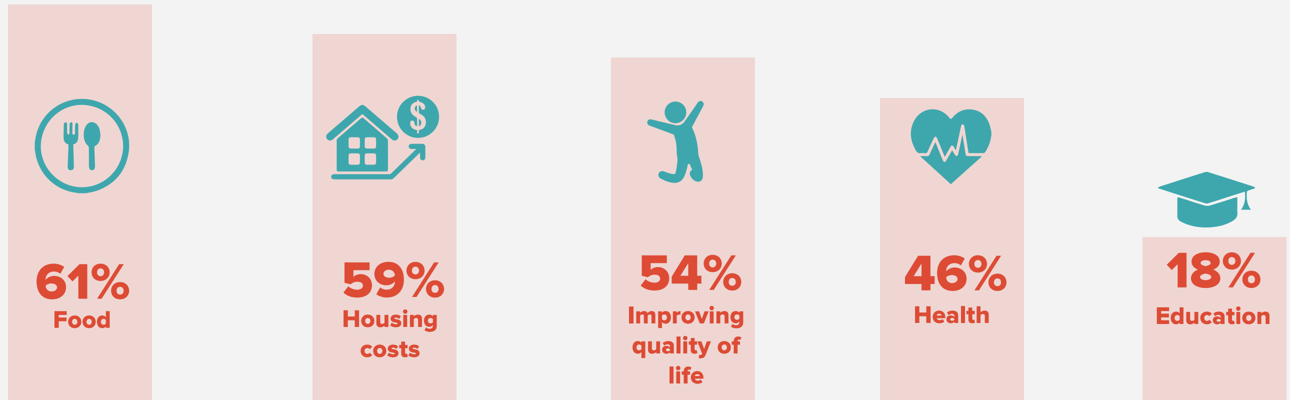
Source: BdL current account and Customs data (2011-2021).

Remittances for household support in the absence of a government-led social protection policy

Despite the importance of remittances in the economy and particularly in supporting the livelihood of households, little data and statistics are available to better understand the behavior of these important flows, mainly in terms of volume, patterns, and impact. Recent official statistics show that only 10% of Lebanese households had reportedly received remittances from non-residents in 2018.[40] However, this figure increased to 15% in 2022.[41] It is worth noting, however, that remittances may be under-reported in national surveys. The substantive size of remittance inflows, at an aggregate level, suggests that the number of people benefitting from these inflows might be well above the figure of 15%. To better understand the impact of these remittances, partial, non-official data, and outdated data is used, in the absence of accurate official statistics. Data from 2007 shows that, for families that receive remittances, these transfers have been an important source of financing for daily needs.[42] The majority of households reported that remittances improved their quality of life, by directing these funds mostly to food consumption (61%) and housing costs (59%). Evidence from other countries has shown that remittances also enable receiving families to invest in human capital, such as their health and education.[43] Lebanon-specific data confirms this, as remittances contributed to spending on healthcare for 46% of families, and to tuition fees for 18% of them (figure 14).

Well before the crisis, two-thirds of Lebanese families who received remittances declared that these were needed for their subsistence,[44,45] and in light of soaring unemployment rates, the depreciation of the local currency, and skyrocketing inflation rates, this number can be expected to increase sharply. While post-crisis data on the contributions of remittances to recipients' quality of life is lacking, understanding the effect of transfers from abroad before the crisis highlights the necessity of securing their continuous inflow.

Figure 14: Share of households reporting spending remittances on each category

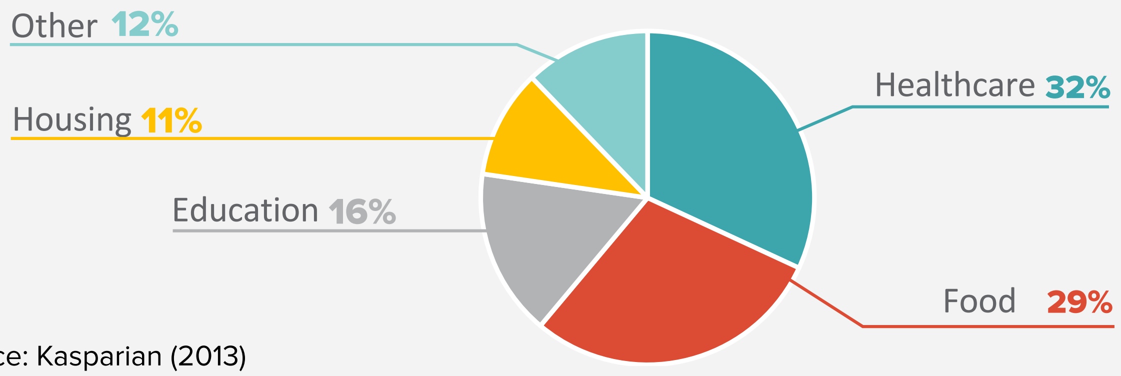


Source: Kasparian (2013).

Families who depend on remittances spend relatively more on healthcare than families who do not rely on transfers from abroad (7% compared to 4% of their yearly spending). In fact, one-third of families who receive remittances consider healthcare costs to be the heaviest financial burden (figure 15), a rate that is significantly higher than that among families who do not (32% compared to 20%). This implies that a sudden stop of remittances would put receiving families' health in jeopardy. Food is perceived as the second largest burden (29%), followed by education (16%), according to Kasparian's data.

40. Central Administration of Statistics. 2018. "Labour Force and Household Living Conditions Survey 2018-2019."
41. Central Administration of Statistics. 2022. "Lebanon follow-up Labour Force Survey January 2022."
42. Kasparian, C.2014. "L'Apport financier des émigrés et son impact sur les conditions de vie des libanais."
43. Richard, H et al. 2010. "Remittances, Household Expenditure and Investment in Guatemala."
44. Kasparian, C.2014. "L'Apport financier des émigrés et son impact sur les conditions de vie des libanais."
45. Edwards, A. and Ureta, M. (2003). International Migration, Remittances and Schooling: Evidence from El Salvador.

Figure 15: Largest financial burden for families receiving remittances



Source: Kasparian (2013)

Remittances have had a clear positive impact on education: As of 2007, children belonging to remittance-receiving households were able to access education in a manner comparable to more well-off households, showing the positive effect of remittances on investment in education. Indeed, 41% of families receiving remittances rely, either fully or partially, on personal transfers from abroad in order to finance tuition fees.[46] This shows that a large chunk of these inflows was invested in basic necessities, including education, instead of being channeled into productive economic projects.

Based on this data, it is clear that remittances acted as a stop-gap resource, in the absence of clear and inclusive social policy. Specifically, the absence of such policy has enabled a fertile environment in Lebanon for the receipt of remittances. This finding is yet another evidence of the real effect of remittance inflows on the Lebanese economy prior to the crisis; these inflows were not invested in revenue-generating, productive activities but were rather used to meet the nation's growing consumption and social needs such as food, health, and education.

2. During-crisis analysis: remittances become a primary source of social support

Remittances continued to flow even following the country's economic and financial meltdown. However, they currently serve a strictly social function. After the onset of the crisis in 2019, the landscape of inflows changed dramatically. In fact, the discretionary capital controls applied by the banking sector and enabled by the Central Bank caused major capital flight and effectively halted private capital inflows in bank deposits as trust in the system faltered. However, remittances maintained relative stability, though their channels and uses changed significantly as socio-economic indicators plummeted.

Anecdotal evidence demonstrates that the post crisis period witnesses a change in the pace, delivery channels, and use of these remittances. With the collapse of the banking sector, most remittances were coming in the form of cash or in-kind, while some reached Lebanon via money transfer companies. Today, remittances are being strictly used to finance imports that are necessary for the sustenance of vulnerable populations faced with inflation and a steep loss of purchasing power.

Remittances to finance urgent consumption needs

Today, the flow of remittances offers a hedge against the risk of a complete collapse of the Lebanese economy by supporting households' access to essential import goods. This observation is confirmed by trade data in Lebanon across time; between 2017 and 2019, the country's trade deficit hovered around 25% (figure 16). This figure plunged by around 7% in 2020, in sync with a drop in most foreign currency inflows. As Lebanon's GDP has dropped to less than $20 billion in 2021 down from $33 billion dollars in 2020, the trade deficit-to-GDP ratio is likely to stabilize[47].Data also indicates a rather positive flow of remittances during the crisis period in comparison to other foreign currency inflows. One may thus deduce, and considering a rather stable trade balance, that these inflows are now

46. Kasparian, C.2014. "L'Apport financier des émigrés et son impact sur les conditions de vie des libanais."
47. World Bank data. https://data.worldbank.org/country/LB
48. SenseMaker is a narrative-based method of research and an ethnographic approach to sense-making inspired by the Cynefin complexity framework. It combines the scale of numbers with the explanatory power of narrative. https://thecynefin.co/about-sensemaker/

Impact of remittance on Socio-economic conditions in Lebanon (2021-2022)

A survey using SenseMaker[49]
The United Nations Development Program (UNDP) conducted a public survey using Sensemakerm, during the first quarter of 2022, to study the impact of remittances on Socio-economic conditions in Lebanon and to better understand the post-crisis impact of remittances on the wellbeing of receiving households, the household coping mechanisms, the use and sustainability of these remittances, the profile of senders/receivers and the channels for sending these transfers.

The most important findings of the survey can be summarized as follows:

- Remittances are widely used to respond to household needs and to support others, but rarely used to generate returns as it was most commonly used for before the crisis
- The current flow of remittances is strongly connected with the economic crisis. The vast majority of respondents perceived it as an emerging need that will continue in the future
- The flow of remittances has limited impact on the work behavior of receivers, the majority of whom tend to keep their work. Still, there is noticeable tendency among receivers to either switch to a more flexible work modality or to pursue non-work activities

Data shows that 72% of respondents consider that the financial support through remittances permit receivers to sustain their lifestyle or make minor changes. Only a minority of 7% considers that decision to send remittances was driven by the intention to generate returns, which is explained by the economic meltdown and limited investment opportunities.

Moreover, results show that the need for remittances is increasing with the prolongation and deepening of the crisis and is expected to remain considerable in the foreseeable future. As the economic crisis is expected to prolong over the short to medium term, a massive dependency on remittances will be created to mitigate severe impact of the crisis. Data shows that 29% of respondents mentioned that they started receiving remittances recently as a response to the crisis and 28% consider that there will be increasing need for remittances in the future as a form of support and protection against the dwindling purchasing power of their income.

For most respondents, remittances are being treated as a supplement to their income. 60% of respondents opt to continue with their work, as there is high likelihood that their current income is not sufficient to sustain their life. The soaring inflation is causing massive losses in the purchasing power of income estimated at more than 80%. For others, remittance may be considered as a top up of existing income. which may provide receivers with more flexibility towards work.

Pursuing non-work-related activities is an emerging trend (around 19% of respondents), which indicates that remittances are creating a kind of dependency and the need for remittances to keep flowing in the future. Most of these respondents are either unemployed or pensioners and are mostly females. A third of those pursuing non-work-related activities are using remittances to introduce new lifestyle patterns, while a third are sustaining their lifestyles.

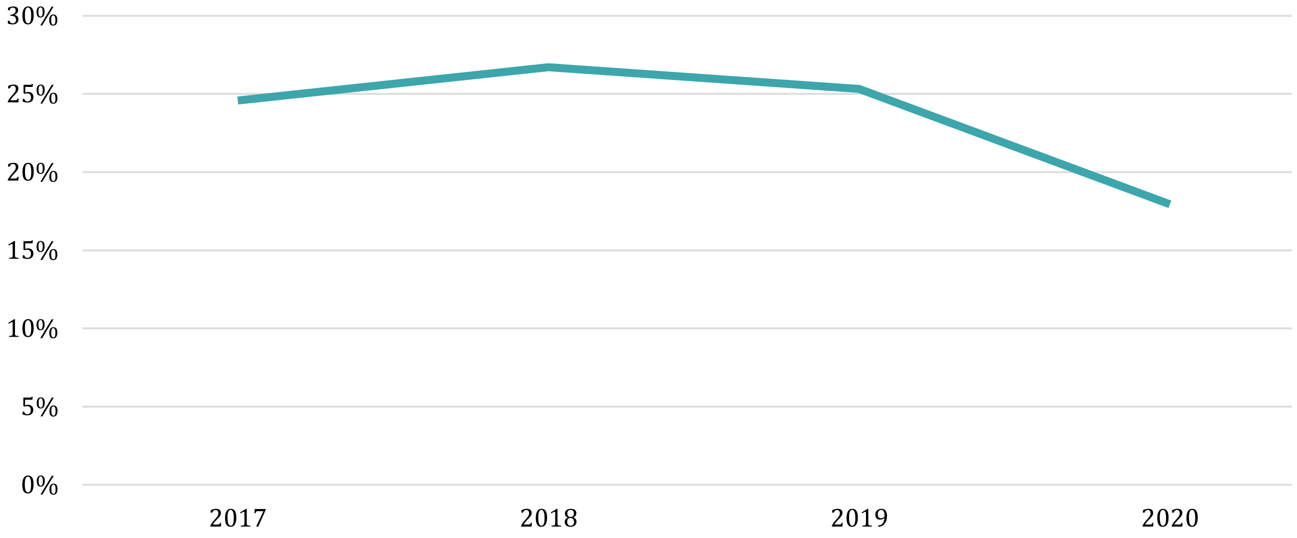
In general, the decision to support, across genders, is primarily influenced by responding to household needs. While male senders focus heavily on one factor or another, female senders balance their support much more. Female senders use their support more strategically by supporting investment decision to generate returns.

The survey reveals that food and health expenditures are the main consumption categories that are covered by remittances. Also, payment of the electricity bill was indicated as one of the priority spending items. Education was down in the priority ranking as households are facing survival threats as a result of the crisis, mainly with the surging prices of food and medicines, becoming less affordable for a wide segment of the population.

Also results reveal that financial support coming from abroad is used to provide assistance beyond the direct family members, which may confirm that remittances are playing the role of social safety net in the absence of a comprehensive formal government-led social safety net programme.

being employed to cushion the debilitating effect of the crisis on consumption. Following the crisis, remittances no longer fed human capital investment – a pattern commonly seen in the pre-crisis period.

Figure 16: Trade deficit (% of GDP)



Source: Author's calculations based on World Bank data

5. Conclusion and Policy recommendations

Following Lebanon's multiple crises, remittances have become stop-gap capital catering for household consumption expenditure.

As mentioned earlier, Lebanon has been one of the highest remittance-receiving economies in the Mena. Such inflows offer a prime example as to how high inflow-dependency may contribute to socioeconomic demise and turmoil. While expatriate transfers, a large part of which was remittances, offered the country a veneer of financial stability, by prolonging an impractical currency peg, and neutralizing productive economic activity necessary for long run growth. Empirically, it is thus not surprising how modest of a growth premium these inflows exhibited in Lebanon. However, financial flows, including remittances, can be transformed into an opportunity for Lebanon, particularly to sustain the repercussions of the ongoing financial and economic crisis, and given the limited financial domestic and foreign resources that the country can tap into to address its emerging needs.

The consistency in the flow of remittances demonstrates a strong connection between the diaspora and their home country. Their contribution, however, could be further leveraged beyond the direct support they channel as remittances to their families. Lessons from the globe indicate that there is a nexus between emigration and local development. Diaspora's funds can be harnessed to play an integral role in boosting local economies and foster the integration of local communities into the broader national economy. In the case of Lebanon, diaspora's engagement may be one of the possible ways to break the ongoing development deadlock, created by the multi-faceted crisis, and deepened by the ongoing political turmoil. One of the main implications of the economic downturns is the limited ability of the country to boost domestic revenues, due to the severe economic contraction and the increasing dysfunctionality of the public sector, particularly the revenue generating agencies. Similarly, Lebanon's ability to tap into international financial resources is restricted, and is subject to concluding a prospective engagement with the IMF requiring the implementation of a full-fledged reform agenda. While progressing slowly on this front, Lebanon may face a serious risk of losing what has been achieved over decades, in terms of development gains, particularly in education, health, infrastructure and other basic socio-economic indicators. Given the scarcity of resources available to the country, the Lebanese diaspora could present an opportunity to support Lebanon's quick recovery, minimize development losses, and put Lebanon back on a healthy, sustainable and inclusive development path. Diaspora's engagement in local development is already taking place across Lebanon and under different forms. Still, the way diaspora's funds are channeled and invested could be rendered more effective and responsive to community needs, should there be an appropriate governing. framework that optimizes the value of these inflows, while aligning with a broader developmental agenda. Such a framework should be joint responsibility among different actors, including the central government, local governments and actors, the diaspora community, international organizations, and local communities at large.

This framework should focus on different pillars including monetary, business environment, fiscal and financial.

First, monetary and government authorities should develop a clear presentation of the magnitude, sources (countries of origin), and regional distribution (destination within Lebanon) of remittances and other financial flows. There is some ambiguity as to what strictly and officially counts as 'remittances', as expressed in Section I on in this paper. Understanding the clear difference between remittances flowing as strict familial aid on the one hand and other financial flows on the other would help in designing proper policies for engaging diasporas in local development.

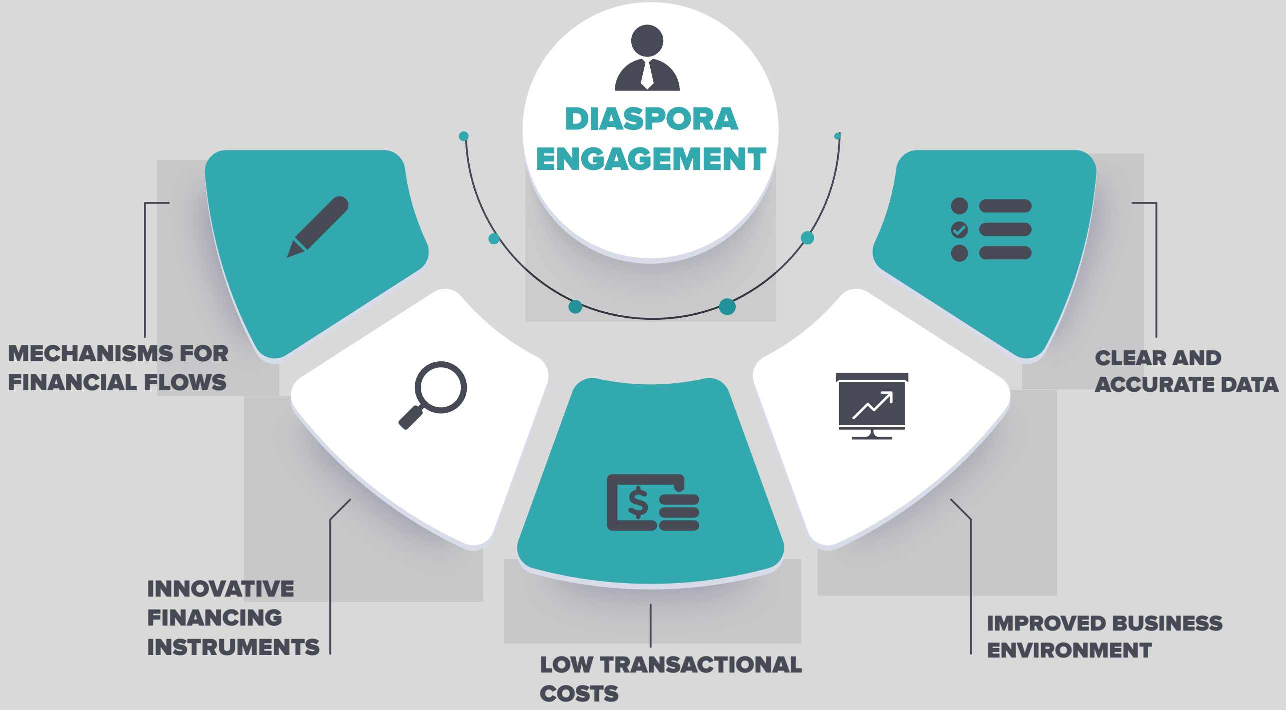
Second, Lebanese authorities should work towards restoring the confidence of expatriates in the Lebanese economy. A particular focus should be placed on improving the business environment to promote a shift in the use of financial flows from rent-seeking practices, such as real estate and financial investments, to investing in real economy. To this end, the government should work on improving basic infrastructure, such as electricity, telecommunication, and transportation, to provide an enabling business environment for both resident and non-resident investors. More so, the government should prioritize productive economic sectors, and encourage entrepreneurship, so that there is a greater incentive for remitters to invest in Lebanon. This would have a desirable impact on containing brain-drain and emigration of high-skill human capital may be contained by providing job opportunities and matching labor supply and labor demand.

Third, policymakers and financial institutions may consider investing in diaspora bonds.[49] These bonds are usually promoted as "an alternative to borrowing from the international capital market, multilateral financial institutions or bilateral loans from Government".[50] Such an instrument could provide expatriates with attractive interest rates or deposit guarantee schemes so that they are encouraged to invest in Lebanon and raise the sense of patriotism among the diasporas. Several countries, such as India and Ethiopia, managed to mobilize development financing using diaspora bonds. For instance, in 2011, Ethiopia used this instrument to fund the Grand Renaissance Dam. Also , India, raised around USD 5.5 billion in year 2000 and it targeted Indian diaspora living in the United States of America. These instruments were resorted to when these countries had difficulties mobilizing resources using traditional market channels, which is currently the case of Lebanon. However, a number of preconditions would need to be in place, the most paramount of which is to regain trust by diaspora in national institutions. Moreover, the relationship between national and local government on the one hand and diaspora communities on the other should be institutionalized, through establishing a dedicated institutional setup to manage this relationship. Also, proactive liaising with embassies and diaspora networks is a potential way of engaging diaspora in providing development financing through bonds (for instance liaisons with as the American Lebanese Chamber of Commerce, student chapters, and Lebanese Diaspora Energy (LDE) and others). The government could also use some bargaining power with international governments to issue tax exemptions for Lebanese expatriates who wish to invest in diaspora bonds.

Fourth, the challenges facing the financial sector is pushing thousands of people and businesses outside the banking system, causing loss of access to basic financial services. Particularly, the rising number of financially excluded drastically affects the ability of households and businesses to receive financial flows from abroad. The note illustrated that informality is dominating the transfer of remittances, and the use of the banking system for this purpose is almost non-existing, notably after the escalation of the crisis. Most of the funds are reportedly transferred by individuals visiting the country, and to a much lesser extent through money transfer companies, which are becoming very costly. The delays in implementing economic and financial reform in Lebanon will certainly translate into a delay in reforming the banking system. Consequently, alternative ways should be put in place to facilitate transfer of remittances and other financial flows. In this uncertain context, digital finance solutions present an opportunity to address access to remittances and financial transfers, mainly for unbanked and financially excluded people. However, the sector needs proper regulatory framework, which is still underdeveloped. It also needs serious efforts to bridge the digital divide in the country, and to build digital skills for the most vulnerable segments, including youth, women, and people with low income.

Finally, the note revealed that there is a high cost associated with transferring diaspora's fund to Lebanon. This could be considered as a barrier that may limit the consistent flow of remittances and other flows. Banks and other financial institutions should consider reducing international money transfer fees to encourage transfers through official channels. The cost reduction on remittances is one of the targets set as part of the 2030 agenda aiming to reduce the cost of sending remittances to less than 3 percent and to eliminate remittance corridors with costs greater than 5 percent (SDG 10.c). This would ensure that remittances are flowing through official channels (Commercial banks and financial Institutions), and thus enable policymakers of better track these flows and design the appropriate policies to ensure an uninterrupted flow and to effectively integrate them into the national economy.

As an immediate next step, it is important to elaborate on the aforementioned framework, build a national consensus around it, and put it into actual implementation.



49. Diaspora bonds are financial instruments issued by a country to its diaspora to tap into their wealth and assets to be used in their country of origin.
50. African Development Bank, Africa Economic Brief: Diaspora Bonds and Securitization of Remittances for Africa's Development, December 2010.

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