



c/o GK Partners  
Downstream Building, 1 London Bridge, London SE1 9BG

**CONFERENCE  
PAPER**

Tel: + 44 (0)20 7785 6343 +44 (0)20 7587 3900  
Email: info@remitaid.org faal@remitaid.org  
www.gkpartners.co.uk www.remitaid.org

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Joint programme of GK Partners (Reg. No. 5179591) & African Foundation for Development [AFFORD] (Charity No. 1104682)*

**Paper by:** Gibril Faal - Chairman, African Foundation for Development (AFFORD-UK)  
Founder, RemitAid™

**Presented to:** Ministerial Conference of the Least Developed Countries on Migrant Remittances  
February 9-10, 2006, Cotonou, Benin

## **Remit Aid™: Remittance Tax Relief for International Development**

**1. Remittances are Sustainable Forms of Development Finance:** There are three factors about migrant and diaspora remittances which makes it a sustainable form of financing international development. Firstly, unlike Official Development Assistance (ODA) and Foreign Direct Investments (FDI), remittances are based on self-help by migrants rather than disbursements by foreign benefactors. Secondly, remittance inflows to developing countries are not countered by outflows through: interest, debt and dividend payments; and retention and repatriation of funds for donor country expatriates and suppliers. Thirdly, remittances are direct investments on food security, education, business start-up, community and property development etc - made through ordinarily private citizens without the undue need for mediation by government or corporate bodies.

**2. Remittances of Home Town Associations:** Remittances by Home Town Associations (HTA) in particular, have economic and financial features which make them ideal as investment funds for international development. Firstly, HTA remittances involve the pooling of funds by many people. With the right incentives, the volume of such funds can be very significant - thereby creating a purchasing capability far beyond that of the individual subscribers. Secondly, HTA remittances tend to involve expenditure on the development, fitting out and maintenance of community assets or the acquisition of resources for the provision of community services. The financial and socio-economic benefits of such community development remittances are self evident. Moreover, these are private (i.e. not governmental or NGO) projects, yet collective (i.e. not individual) development investments. Thirdly, HTA remittances tend to be productive rather than consumptive in nature. Productive expenditure relates to transactions which translate moneys into durable tangible or intangible assets. Although all types of remittances have economic impacts (e.g. through local multiplier effects) in the recipient community, productive remittances are more readily discernible as sustainable economic investments funds.

**3. Increasing the Impact of Remittance Investments:** The characteristics of HTA remittances create opportunities for government policy to be used to increase and enhance the impact of remittances both in 'host' and 'receiving' countries. There are interesting examples of how governments in receiving countries such as Mexico, work with HTAs to match fund local projects. However, in this presentation, we shall concentrate on what governments in 'host' countries can do, and how governments in receiving countries and international development organisations can help in the effort to increase the value of remittances.

**4. Call for Remittance Tax Relief (RTR):** At a meeting “to discuss the UK priorities for Africa leading to the Gleneagles Summit”, at 11 Downing Street, London in June 2005, we raised the issue of remittances with the Chancellor of the Exchequer Gordon Brown (United Kingdom’s Finance Minister). As a follow up, in July 2005, we called for the UK government to introduce tax relief on ‘development’ remittances sent to the Least Developed Countries (LDCs), similar to tax relief currently available for both charitable donations and economic regeneration investments. Every £100 donated to a UK charity by a UK taxpayer can attract a tax rebate of about 28%, meaning that the charity’s donated income increases to £128. Furthermore, if the donors pay tax at the higher income tax rate of 40%, they can claim back extra tax relief of up to 23%. These are the worthy benefits brought about by the Gift Aid tax regime operated in the UK. We call on the UK government to introduce ‘RemitAid™’, along the same lines as Gift Aid, as a tax incentive for development remittances. This will provide parity between charitable donations and the remittances that are spent on international development. Remit Aid™ will also ensure that there is fairness for the low income tax payer who donates through remittances - Gift Aid already rewards high income earners who donate through registered charities. In the UK, a number of tax relief schemes such as Venture Capital Trust (VCT), Enterprise Investment Scheme (EIS) and Community Investment Tax Relief (CITR) exist in order to encourage investment in business innovation and development, economic regeneration and social enterprise. These schemes provide investors with tax relief of up to 40% on investments of up to £200,000. We call on the UK government to introduce an International Development Tax Relief (i.e. Enterprise Remit Aid™) along the same lines as VCT and EIS, as tax incentive for investment in development projects in LDCs. Such projects would include community and social enterprise ventures in health and educational facilities and services, as well as investment in qualifying business start-ups, innovations and developments. Annually, UK tax payers remit significant sums for such community and business projects without any tax incentives. IDTR/Enterprise RemitAid™ will encourage UK tax payers to allocate more of their remittances to such productive investments and projects. There is a need for remittances spent on emergency aid and daily consumption to be balanced by capacity-building investments in productive ventures.

**5. Technical Packaging of Remittances as International Development Funds:** Remittances sent through HTAs are discernible as community development investment funds. However, other forms of remittances (e.g. for business start-up) are economic development investments. Even remittances sent privately to families for consumptive expenses such as emergencies, food and subsistence, education and healthcare, can be compared to charitable donations made to international NGOs by private citizens in the host countries. We propose that the impact of remittances can be increased significantly if remittances are technically packaged as community and economic investment funds, and ‘Development Aid’ funds. With formal recognition of remittances as technical financial and investment packages, it would be easier to lobby and advocate in host countries for the introduction of remittances tax relief.

**6. Further Work on RemitAid™:** Currently, work is progressing on designing different operational frameworks through which the schemes can be run effectively and transparently, in line with anti-money laundering and other financial regulations. This shall be followed by technical and general consultations with wide ranging primary and secondary stakeholders. The operational framework of RTR through the Remit Aid scheme shall also be piloted prior to a comprehensive campaign for the introduction of remittance tax relief in the UK, OECD and other countries with high levels of remittances to LDCs. Governments of LDCs and organisations working on international development are key stakeholders with a crucial role in making RTR for international development a reality. The most conservative estimates show that tax relief through Remit Aid™ has the potential to bring in hundreds of millions of dollars of new funds into the international development sector.

**Gibril Faal FRSA, JP – February 2006, London / Cotonou**  
Chairman, African Foundation for Development (AFFORD-UK) / Founder of RemitAid™

**Postscript:** The following resolution proposed by Gibril Faal was adopted as part of the Ministerial Declaration;

*"We, Ministers and Heads of delegations of the Least Developed Countries (LDCs), having met on 9 and 10 February 2006 in Cotonou, at the Ministerial Conference of the Least Developed Countries on Migrants' Remittances;*

*Urge Governments of host countries to consider introducing tax relief for remittances similar to tax incentives provided for investment funds and charitable donations"*

## **Further Information:**

**Gibril Faal FRSA, JP - Chairman, African Foundation for Development (AFFORD-UK)  
Founder of Remit Aid™: Remittance Tax Relief for International Development**

Gibril Faal has been a management consultant, business adviser and University lecturer for over 15 years, working on private, public and voluntary sector development. In the past 4 years, he played a significant role in the development of social enterprise strategy and practice in the UK. Whilst on a Department of Trade and Industry (DTI)-funded project, he was one of the pioneers of social enterprise business support delivery. Gibril was previously a lecturer with the Open University, teaching on the MSc course in Global Development Management. He is a Director with GK Partners, a UK-based consultancy specialising on developing integrated businesses, corporate social responsibility and social enterprises. He also sits part time as a magistrate. Qualifications include; Combined Honours degree in Law, Finance & Management, and postgraduate degrees in both Environmental Sciences and Development Studies. He is a member of the Institute of Islamic Banking & Insurance, Chartered Institute of Arbitration and the Chartered Management Institute. Gibril also works on the linkages between Islamic and ethical finance and the application of social enterprise models to international development. He is the Chairman of the African Foundation for Development (AFFORD), a UK-based charity which works to extend and expand the role of diasporan Africans in African development. GK Partners and AFFORD are working together on a remittance tax relief scheme, i.e. Remit Aid™ and 'International Development Tax Relief'.

## **African Foundation for Development (AFFORD-UK)**

African Foundation for Development (AFFORD) is a UK based charity that works to enhance and expand the capacity of Africans in the diaspora to contribute to Africa's development. AFFORD seeks to achieve its mission through four strategic goals:

- To shift the balance of power to Africa
- To influence the African development agenda
- To strengthen AFFORD's legitimacy and effectiveness
- To build a strong and sustainable AFFORD

AFFORD pursues its mission through a range of services which reflect the strategic goals, e.g.:

- Sharing information through - news, events and E-lists
- Facilitating networks through - discussion forums and project facilitation
- Building capacity through - resource centre, training & workshops
- Sign-posting career opportunities through - jobs alerts, career advice and internships
- Influencing development policy through - action research, policy advocacy and ad3

AD3 is the annual African Diaspora & Development Day (ad3) organised by AFFORD. The theme for 2005 was "Enterprise Africa! Mobilising the African diaspora's resources to create enterprises, jobs & wealth in Africa". The keynote speaker was the Nobel Laureate, Prof. Wangari Maathai.

AFFORD's recent achievements include:

- Supported creation of two leading diaspora networks - African Diaspora Voices for Africa's Development (ADVAD); and Connections for Development
- Provided Africa-related careers training for nearly 100 young Africans in London & secured internships in four African countries for young diasporan Africans
- Contributed to & helped shape policy debates around migration/diaspora & development with recommendations helping to influence government & funder policies
- Helped to place & keep the African diaspora's contribution to Africa's development firmly on the policy agenda
- Helped over 100 African diaspora organisations build their capacity as development agencies
- Initiated the UK's first award ceremony for Africans in the diaspora contributing to Africa's development
- Pioneered widely emulated models of mobilising the African diaspora through initiation of the precursor to the African Diaspora & Development Day in 2000
- Developed one of the UK's widest networks of African diaspora organisations & individuals working for Africa's development.

**Information Officer: Onyekachi Wambu, AFFORD, 31-33 Bondway, Vauxhall Cross, London SW8 1SJ**

**Tel: +44 (0)20 7587 3905 Fax: +44 (0)20 7587 3919 [www.afford-uk.org](http://www.afford-uk.org) [onyekachi@afford-uk.org](mailto:onyekachi@afford-uk.org)**

**Gibril Faal – + 44 (0)20 7785 6343 [info@remitaid.org](mailto:info@remitaid.org) [gfaal@gkpartners.co.uk](mailto:gfaal@gkpartners.co.uk)**