

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**UNCTAD**



**MAXIMIZING THE DEVELOPMENT IMPACT OF  
REMITTANCES**



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## PREFACE

Remittances flows are becoming an increasingly salient issue in the international debate on migration and development. Remittances are perceived as one of the key benefits that migration bring to originating countries. Remittances are private flows of resources mostly intended for direct consumption and household support. There is solid evidence that remittances can and have assisted many developing countries and least developed countries (LDCs) in maintaining BOP stability, ensuring the availability of hard currency, improving countries' credit worthiness for external borrowing and increasing internal aggregated demand.

Remittance flows to developing countries are projected to reach \$325 billion in 2010<sup>1</sup>, growing 2 per cent if compared to 2009 and arriving at the same amounts of pre economic crises levels of 2008. During this crisis, remittances have proven to be more reliable and sustained flows than other sources of external financing such as foreign direct investment, public debt or official development assistance. Nevertheless, remittances cannot be considered a substitute to these other sources of external finance due to their private nature and purposes.

The potential of remittances does not end there. Remittances are seen today under a totally different light as they can become a solid resource base for leveraging human development, financial inclusion, and investment in a productive capacity. Realizing the potential of remittances for development is not an easy task. Senders and recipients, as owners of these resources, have their own priorities and usually dispose of only a small share of these resources once basic needs have been addressed.

Evidence shows that a significant amount of remittance transfers to developing countries are spent on household consumption. A share of these expenditures is directed towards the construction of homes, healthcare and education, thereby generating local employment in these critical service sectors. Much of the remaining remittance flows to developing countries are household savings, which can be invested in local infrastructure and productive activities, often through the direct involvement of home country governments, local communities and diaspora associations. These funds can be significantly leveraged for co-financing development.

Important challenges still exist in originating and destination countries in order to improve accessibility, affordability and safety of remittances transfers. Also, an absence of products and services designed to specifically respond to migrant needs, promote savings and incentivize entrepreneurial activities is hindering the potential that remittances have for asset building and investment. Furthermore, an accumulation of new restrictions on temporary movement of people and difficulties in protecting and enforcing migrant's rights are becoming significant stumbling blocks for remittances growth.

Given the increasing current importance of remittances as well as migration and labour mobility related issues have for development, Member States have requested UNCTAD consider "the potential benefits and opportunities of trade, investment and development links between countries of origin of migrants and their communities abroad"<sup>2</sup> and "the potential of migrants' remittances to contribute to development, maximize benefits derived and minimize costs through policies such as expanding migrant's access financial services".<sup>3</sup>

In response to these requests, UNCTAD convened a Single Year Expert meeting on "Maximizing the development impact of remittances", held in Geneva the 14–15 February 2011. Discussions by experts<sup>4</sup> pointed out at the value and relevance of different country experiences on the impact of remittances at the macroeconomic level but also regional and household levels. Experts showed case the different measures being used by countries for facilitate remittances flows, expand financial inclusion, and lever transfer flows to enlarge savings and promote human development. They also introduced key lessons on how specific incentives to promote investment and productive capacity have been successful or not in practice.

In this regard, experts indicated that there is a need to further explore experiences in setting comprehensive policy and institutional frameworks that encompass sound financial, labour and migration regulations, incentives to formalise transfers and promote savings and investment, active public-private partnerships, as well as mechanisms to enhance diaspora and donor engagement. One critical point raised by many experts is that when

designing or implementing such policy framework, a clear understanding about your migrants, their main needs, interests and concerns, and how they interact through social networks was essential for success.

The present publication seeks to gather main experiences and proposals made by policy makers, delegates, experts, intergovernmental organisations and civil society representatives during the 2011 UNCTAD Single Year Expert meeting on “Maximizing the development impact of remittances”. It is also a tool for consolidating state of the art knowledge on remittances trends, providing new thinking on the role that remittances play in development, and enabling stakeholders in better designing comprehensive policy and institutional frameworks in the intersection between migration, remittances, financial services and labour mobility issues.

As the focal point of the United Nations for the integrated treatment of trade and development and interrelated issues, UNCTAD will use this knowledge and experiences to continue and deepen its work on key policy questions regarding migration, remittances and development.

## ENDNOTES

- <sup>1</sup> Migration and remittances Factbook 2011. World Bank, 2011.
- <sup>2</sup> See UNCTAD (2009). Note for the Ad Hoc Expert Meeting on the Contribution of Migrants to Development: Trade, Investment and Development Linkages.
- <sup>3</sup> UNCTAD (2008). Report of the United Nations Conference on Trade and Development on its twelfth Session (TD/442).
- <sup>4</sup> See UNCTAD (2011). Report of the Expert Meeting on Maximizing the Development Impact of Remittances, document TD/B/C.I/EM.4/3.

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This publication was edited and prepared by Mina Mashayekhi with assistance from Liping Zhang and David Vivas Eugui. Matthew Snyder assisted in the editorial review of certain pieces.

The major contributors are the authors of the individual papers. Substantive contributions of the participants in the above forum were also significant, particularly those from William Lacy Swing, Director-General, International Organization for Migration (IOM); Kyung-Wha Kang, Deputy High Commissioner, Office of the High Commissioner for Human Rights, United Nations High Commissioner for Human Rights (UNHCHR); Assane Diop, Executive Director for Social Protection, International Labour Organization (ILO); Purnima Mane, Deputy Executive Director, United Nations Population Fund (UNFPA); Kirsi Madi, Deputy Regional Director for Central and Eastern Europe/Commonwealth of Independent States, United Nations Children’s Fund (UNICEF); Ralph Chami, Chief of Regional Studies Division, Middle East and Central Asia Department, International Monetary Fund (IMF); Jean D’Cuhna, Global Migration Adviser, UNWOMEN; Serguei Nanba, Postal Financial Services Coordinator, and Nils Clotteau, Partnerships and Resource Mobilization Expert, Universal Postal Union (UPU); Pedro De Vasconcelos, Manager, Financing Facility for Remittances, International Fund for Agricultural Development (IFAD); Susanne Melde and Rudolf Anich, ACP Observatory on Migration, International Organization on Migration (IOM); Robert Meins, Remittance Specialist, International Fund for Agricultural Development (IFAD); Juan Jose Garcia Vasquez, Vice-Minister of Foreign Affairs in charge of Migration Issues, El Salvador; Ruth C. Gonzaga, Deputy Director, Balance of Payments Statistics Group Department of Economic Statistics Central Bank of the Philippines; Richard Ampomah-Asiedu, Research Department, Bank of Ghana; Khurshed Alam Chowdhury, Director General, Bureau of Manpower Employment and Training, Ministry of Expatriate’s Welfare and Overseas Employment, Bangladesh; Saul T. De Vries, Deputy Director, National Reintegration Center for Overseas Filipino Workers Department of Labour and Employment, the Philippines; Samba Yomb Thiam, Technical Advisor to the Minister, Ministry of Senegalese Abroad, Senegal; Anas Alami-Hamedane, Counselor; Permanent Mission of the Kingdom of Morocco to the United Nations and other international organizations in Geneva; Yu Zhu, Professor, Centre for Population and Development Research, School of Geography, Fujian Normal University, and Chair of Asia-Pacific Migration Research Network, China; Connel Fullenkamp, Professor, Department of Economics, Duke University; Leon Isaacs, Managing Director, International Association of Money Transfer Networks (IAMTN) and Chief Executive Officer, Developing Markets Associates Limited (DMA); and Manuel Orozco, Director Remittances and Development Program, Inter-American Dialogue.

The first chapter was prepared by Mina Mashayekhi, Liping Zhang and David Vivas Eugui.

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## ABBREVIATIONS

ACP	African, Caribbean and Pacific Group of States
ADB	Asian Development Bank
AFDB	African Development Bank.
AML-CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ASEAN	Association of Southeast Asian Nations
APEC	Asia-Pacific Economic Cooperation
ARS	Alternative Remittance Systems
ATM	automatic teller machine
BCB	Banque Commerciale du Burkina Faso
BCEAO	Central Bank of West African Economic and Monetary States
BIMT	Bangladesh Institute of Marine Technology
BMET	Bureau of Manpower Employment and Training
BOG	Bank of Ghana
BOP	balance of payments
BSP	Bangko Sentral ng Pilipinas
CES	Consumer Expectations Survey
CERMES	Centre de Recherche Médecine, Sciences, Santé et Société
CIP	commercially important persons
CFA Franc BCEAO	Franc of the West African Community
CFO	Commission on Filipinos Overseas
CEMLA	Centro de Estudios Monetarios Latinoamericanos
GATS	General Agreement on Trade in Services
GFC	global financial crisis
DAIP	Directorate for the support of Investment and Projects, Ministry for the Senegalese abroad
DMA	Developing Markets Associates Limited
DDA	Doha Development Agenda
DESA	United Nations Department of Economic and Social Affairs
DPEE	Directorate of Forecast and Economical Studies of the Senegalese Ministry of Economy and Finance
DPP	Diaspora Partnership Programme
DOLE	Department of Labour and Employment
EEA	European Economic Area
EDI	Electronic Data Exchange
EIB	European Investment Bank
EFLP	Economic and Financial Learning Programme
EO	executive order
EU	European Union
FCD	foreign currency deposit
FCDU	Foreign Currency Deposit Unit

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FEDECASES	Federation of Salvadorian Savings and Credit Cooperatives
FDI	foreign direct investment
FIs	Philippine financial institutions
FFR	Financing Facility for Remittances
FLC	Financial Learning Campaign
FSD	Financial Sector Deepening
FX	foreign exchange rate
GCIM	Global Commission on International Migration
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GFMD	Global Forum on Migration and Development
CGAP	Consultative Group to Assist the Poor
GJP	ILO's Global Jobs Pact
GMG	Global Migration Group
GNI	gross national income
GPRS	Ghana Poverty Reduction Strategy
GRWG	Global Remittances Working Group
HTAs	Hometown Associations
ICT	information and communication technologies
IAD	Inter-American Dialogue
IADB	Inter-American Development Bank
IAMTN	International Association of Money Transfer Networks
ID	identification cards
IFS	International Financial System
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
IOM	International Organization for Migration
ITCILO	International Training Centre of the ILO
ITRS	International Transactions Reporting System
LDCs	least developed countries
LINKAPIL	Link for Philippine Development
MDGs	Millennium Development Goals
MEDA	Euro-Mediterranean Partnership
MIDA	IOM's Migration for Development in Africa Programme
MFIs	microfinance institutions
MIGRANT	ILO's International Migration Programme
MLA	Moroccans living abroad
MoU	memorandum of understanding
MPA	Mobility Partnership Agreement
MPI	Migration Policy Institute
MTO	Money Transfer Operators

MSMEs	microenterprises, small and medium enterprises
NAP	National Accounts of the Philippines
NBFIs	Non-Bank Financial Institutions
NRB	National Registration Bureau
NGOs	non-governmental organizations
NPISH	Non-Profit Institutions Serving Households
NRCO	National Reintegration Centre for OFWs
NSAPR	National Strategy for Accelerating of Poverty Reduction
ODA	official development assistance
OFs	overseas Filipinos
OFWs	overseas Filipino workers
OECD	Organization for Economic Cooperation and Development
OHCHR	High Commissioner for Human Rights
OSAA	Office of the Special Adviser on Africa of the United Nations
OWWA	Overseas Workers Welfare Administration
PAISD	Programme for Development and Solidarity Initiatives
PDOS	Pre-Departure Orientation Seminar
PLASEPRI	Partnership between Italy and Senegal for supporting the private sector and the revalorization of the Senegalese Diaspora in Italy
PhilPASS	BSP-Philippine Payments and Settlements System
PRI	Pakistan Remittances Initiative
PSD	Payments Services Directive
POLOs	Philippine Overseas Labor Offices
QCS	Quality Control System
REVA	Return to Agriculture Project
RQAN	Return of Qualified African Nationals Programme
RSPs	remittance service providers
SAR	Special Administrative Region
SENAMI	Secretaría Nacional del Migrante, Ecuador
SFP	ILO's Social Finance Programme
SME	small and medium enterprises
SMS	short messaging system
TFP	total factor productivity
TTCs	technical training centres
TVE	townships and villages enterprises
UKRTF	UK Remittances Task Force
UNCTAD	United Nations Conference on Trade and Sustainable Development
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNFPA	United Nations Population Fund
UN-OHRLLS	United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
UNWOMEN	United Nations Organization on Gender, Equality and Empowment of Women
UPU	Universal Postal Union
USD	United States dollar
WTO	World Trade Organization



**PART I**  
**LEVERAGING REMITTANCES FOR  
DEVELOPMENT**



# 1. MAXIMIZING THE DEVELOPMENT IMPACT OF REMITTANCES

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## ABSTRACT

*Migrants make important economic, developmental and cultural contributions to sending and receiving countries. Remittances from migrants have positive impacts on poverty reduction and development in originating countries, mostly developing ones, substantially contributing to the achievement of the Millennium Development Goals. These positive impacts become greater when remittances can be saved and invested in infrastructures and productive capacity. Government policy measures could induce such use. Significant barriers to migration and remittance transfers need to be addressed in order to harness opportunities for development and poverty reduction, including through easing financial transfers, setting appropriate incentives, improving policy coherence in migration and remittances policies, and facilitating the temporary movement of people.*

## I. INTRODUCTION

Recent evidence points to a significant and growing contribution of migration to economic and social development throughout the world. Migrants form part of a diverse but highly engaged workforce that not only provides required labour inputs and brings new developmental and cultural resources to receiving countries, but also contributes to poverty reduction and development finance, as well as domestic demand, knowledge and skills transfer, and trade and commercial networks in both sending and receiving countries.

Remittances have attracted increasing interest at the national and international level. Drawing linkages between migration, remittances, trade, investment and development is complex and multifaceted. For the purposes of this note, a wide definition of “remittances” is used, encompassing private monetary transfers that a migrant makes to the country of origin, and including investments made by migrants

in their home countries, as such funds significantly contribute to development and poverty reduction. A stricter statistical definition made by the International Monetary Fund (IMF) includes workers’ remittances, compensation of employees and migrant transfers.

The present note seeks to provide a contribution in advancing paragraph 170 of the Accra Accord and to the United Nations General Assembly resolution passed in 2010 on international migration and development<sup>2</sup> and also to offer inputs to the informal thematic debate in 2011 on international migration and development in preparation for the second United Nations high-level dialogue on migration and development to be held in 2013. The note is based on the content of the background note<sup>3</sup> and the Chair’s report of UNCTAD’s single-year expert meeting on “Maximizing the Development Impact of Remittances” held in Geneva the 14-15 February 2011.<sup>4</sup>

## II. CURRENT MIGRATION TRENDS AND GLOBAL MIGRATION GOVERNANCE

People have continuously moved, seeking better economic opportunities, family reunion, and humanitarian relief. Globalization, modern communications and transportation have greatly facilitated such movement. The United Nations Department of Economic and Social Affairs (DESA) estimates that the total migrant stock increased from about 195 million to 215 million between 2005 and 2010 at 1.8 per cent annually on average, while the share of migrants in the total population remained stable in the same period (only moving from 3.0 to 3.1 per cent). Compared to the 2000–2005 period, the growth in the number of migrants in developed countries decelerated between 2005 and 2010. Migrant workers, who are the main source of remittances to their home countries, numbered about 86 million by 2009. The stock of international migrants is expected to rise to 405 million by 2050.

South–North migration through traditional corridors remains important, accounting for 43 per cent of migrant stock from the South, which suggests that South–South migration has become larger. The latter accounts for 73 per cent in sub-Saharan Africa, reflecting that most migration occurs within regions.<sup>5</sup> The prosperity of certain countries attracts large numbers of migrants, explaining why Saudi Arabia, Singapore and the United Arab Emirates are favoured destinations.

The number of migrants varies considerably across regions (see fig. 1). Most migrants live in Europe, Asia and North America, with growth rates in 2005–2010 in North America and Europe standing at about 10 and 8 per cent respectively. Growth is expected to continue but at lower rate in those two regions. The top migrant destinations in 2009 were the United States of America, the Russian Federation, Germany, Saudi Arabia and Canada. As a share of total population, the top receiving countries were Qatar (87 per cent), the United Arab Emirates (70 per cent) and Kuwait (69 per cent), whose popularity as destinations has increased

owing to their more resilient labour markets as has been revealed during the recent economic crisis.

Female migrants constitute a significant proportion of international migrants, though their numbers have remained relatively stable, going from 49.2 per cent in 2005 to 49 per cent in 2010. Migrant women are in many cases, the only contributor to family finances. Many fundamental aspects relating to them need to be addressed, including rights-related issues and equal labour opportunities.

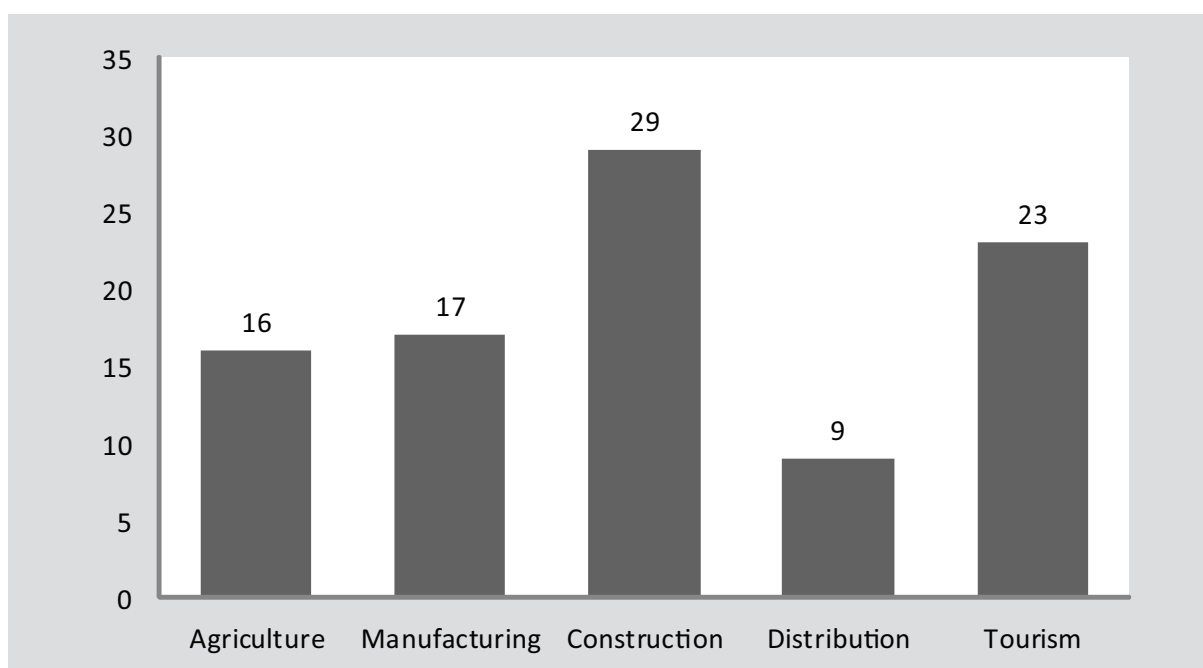
In terms of sectoral distribution, migrants are concentrated in key sectors such as construction, tourism, manufacturing and agriculture, accounting for 29, 23, 17 and 16 per cent respectively (see fig. 2).

The crisis has severely impacted on sectors that absorb large amounts of labour (e.g. construction, tourism, and financial services). Demand for labour has fallen substantially. The number of unemployed people worldwide reached nearly 212 million in 2009, adding 19 million more jobless to the 2008 total.<sup>6</sup> Disproportionately, more jobs have been lost

Figure 1. Estimated number of migrants at mid-year (2005–2010)



Source: DESA (2009).

**Figure 2. Share of migrant workers in total sector employment**

Source: UNCTAD, based on data from the International Labour Organization (ILO) (2010).

among immigrant youth, in particular among men. In 2009, the unemployment rate of the foreign-born between 15 and 24 years old reached 15 per cent in the United States, 20 per cent in Canada and 24 per cent on average in the European Union (EU). Consequently, migration to OECD countries fell by about 6 per cent in 2008 to about 4.4 million people, reversing a continuously upward growth trend<sup>7</sup> (see fig. 3). Unemployment is projected to continue to rise, at 10 per cent on average in 2010. More than 57 million people will be unemployed compared with 37.2 million at the end of 2008, which makes OECD labour markets less appealing for new migrants and difficult for existing migrants. Globally, according to DESA, the number of international migrants continues to increase despite the crisis.

Some countries responded to the crisis by restricting the inflow of migrant workers, often under public pressure to keep jobs for nationals, with the attendant effect on remittance flows. Such measures have included lowering numerical limits (quotas and caps); tightening labour market tests; inserting “hire nationals” provisions in stimulus packages; limiting the possibilities for migrants to change status and renew permits; and promoting return migration. The changes in visa regulations and/or restrictions on work

permits that have been introduced in some countries, such as Canada, India, Japan, Malaysia, Singapore, Thailand, the United Kingdom of Great Britain and Northern Ireland and the United States, have impacted migrants, including highly skilled migrants.<sup>8</sup>

The number of migrants may increase as post-crisis economic prospects improve. Some longer-term trends have not yet been reversed, necessitating future migration. Labour demand will continue to exist in the Organization for Economic Cooperation and Development (OECD) countries, due to ageing population trends and continuous demand for certain jobs in domestic, healthcare, and education services. Emerging developing countries are expected to attract higher migration flows as the amount of labour force in developed countries is projected to remain stable at about 600 million until 2050, whereas in emerging developing countries it is expected to increase from 2.4 billion in 2005 to 3.6 billion in 2040.

Climate change and natural disasters are increasingly relevant to migration flows. Environmental changes such as rising sea levels, extreme weather events, decreased or increased rainfall, and shifts in disease patterns could trigger population displacement. At least 20 million people were estimated to have been displaced (in many cases temporarily) by climate-

related disasters in 2008, and about 200 million people may be displaced by 2050.<sup>9</sup> On the other hand, measures to mitigate the impacts of climate change and to promote environmental sustainability are creating green jobs, for example solar/wind power engineers and technicians and repair and maintenance specialists. It is estimated that 2.1 million jobs will be created in wind energy, 6.3 million in solar photovoltaic energy and 12 million in biofuels by 2030.<sup>10</sup>

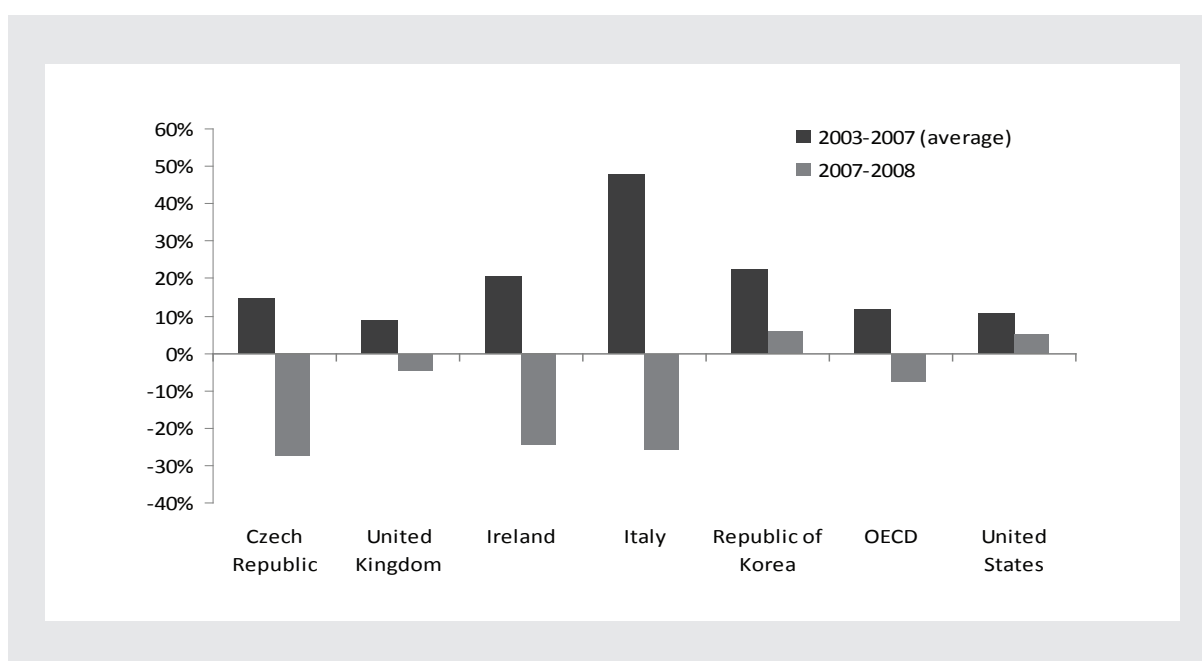
Many of the aspects surrounding migration, remittances and development are politically sensitive and emotionally charged in many countries. Due to the importance and complexity of migration issues and with the intention to continue multilateral dialogue on international migration and development, which had started with the United Nations High-level Dialogue (2006), a Global Migration Group (GMG) was created in 2006 at the initiative of the United Nations Secretary General. Also the Global Forum on Migration and Development (GFMD) was launched in 2006 to provide an opportunity to exchange views and to depolarize perspectives, between origin and destination countries.

The GMG is an inter-agency coordination body seeking to promote a wider application of all relevant

international and regional instruments and norms relating to migration and to encourage the adoption of more coherent, comprehensive and better coordinated approaches to international migration. It had undertaken joint work, including in relation to mainstreaming migration into development, and had made contributions to the GFMD sessions.

While the agenda of the GFMD is quite comprehensive, remittances have been one of the key issues subject to dialogue in several gatherings since 2006 in Brussels (2007), Athens (2009) and in Mexico (2010). The GFMD was quite successful at the recent conference held in Puerto Vallarta (Mexico) developing a common framework for future discussion, including: (a) a focus on human development, based on knowledge and experiences; (b) a common understanding that there were shared responsibilities (e.g. respecting human rights and ensuring family protection) and shared benefits (in the form of remittances, knowledge, and labour inputs) between origin and destination countries; and (c) using comprehensive partnerships between government and civil society as solid vehicles for advancing action on the ground. Many observers consider that this framework could also be a suitable platform for generating specific development outcomes.

Figure 3. Evolution of international migration flows from 2003—2008



Source: OECD (2010).

### III. TRENDS IN REMITTANCES

Data clearly indicate the increasing importance of workers' remittances to developing countries. Asia is the biggest remittance-receiving region, followed by Latin America and Africa (table 1). From 1990 to 2008, Asia experienced the fastest annual remittance growth (17 per cent), followed by Latin America (14.3 per cent) and Africa (10.2 per cent). A rapid increase in workers' remittances to Asia is evident. In 1990, workers' remittances to Asia were roughly 20 per cent less than to Africa and 47 per cent greater than to Latin America. In 2008, they were roughly 2.3 and 2.4 times the size of inflows to Africa and Latin America respectively.

The level of remittances fell during the crises due to decreased migration flows, in particular to OECD countries, and due to the reduced income of migrants. In 2009, remittances to developing countries reached \$316 billion, down 6 per cent from \$336 billion in 2008. They are expected to increase by 6 per cent in 2010, 6.2 per cent in 2011 and 8.1 per cent in 2012, to reach \$374 billion by 2012.<sup>11</sup> The crises have generated different effects in key migration corridors. Remittances to Latin America and the Caribbean, Central Asia, and the Middle East and North Africa fell more deeply than the world average, by 15 per cent, 21 per cent and 8 per cent respectively, whereas overall remittances to South Asia continued to grow at 6 per cent, adding to the resilience of domestic demand in this region.<sup>12</sup> Flows to East Asia and the Pacific region remained flat, while they fell by 3 per cent in sub-Saharan Africa.<sup>13</sup> The growth of remittances in Asia and modest falls in sub-Saharan Africa can be explained by higher diversity in destination countries including other developing countries. For example, India received 27

per cent of all its remittances from Qatar, Saudi Arabia and the United Arab Emirates in 2009.

China, India, Mexico and the Philippines remained the top recipients in 2009 (fig. 4). It is worth noting that remittances are not only of value to developing countries. In 2009, developed countries such as France, Germany and Spain were among the top recipients. Spain has been a major recipient since the 1960s. The United States is the largest source of remittances, with \$46 billion in recorded outward flows in 2008, followed by the Russian Federation, Switzerland and Saudi Arabia.

In 2009, remittances accounted for 1.9 per cent of the gross domestic product (GDP) of developing countries and LDCs. In terms of share of GDP, smaller countries such as the Republic of Moldova, Tajikistan and Tonga, and a few LDCs including Lesotho and Samoa, were the largest recipients in 2008 (see fig. 5), suggesting the greater role of remittances in these countries' economic and social development. The impact of remittances on LDCs can be even higher. Remittances account for more than 5 per cent of gross national income (GNI) in almost a third of the LDCs.<sup>14</sup> The share is more than 10 per cent in some LDCs such as Cape Verde, the Gambia, Haiti and Lesotho. For Cape Verde, it ranged from 12 to 17 per cent during 2000 and 2006 (a relevant period for the LDC graduation evaluation) and remittances were the second largest source of foreign exchange.<sup>15</sup> Remittance inflows are considered to be one of the contributors to LDC graduation, for example in the case of Cape Verde's graduation from LDC status in 2007.

Remittance inflows have proved to be resilient relative to foreign direct investment (FDI) and are an important component of financing for development.

**Table 1. Top five receiving countries by region (in billions of dollars, 1990–2008)<sup>1</sup>**

Groupings	1990	2000	2008	Average growth rate (1990–2008)
Asia <sup>2</sup>	5.5	21.5	93.2	17.0
Latin America <sup>3</sup>	3.8	12.2	41.4	14.3
Africa <sup>4</sup>	6.9	7.8	39.5	10.2

Source: UNCTAD (2010), based on IMF BOP statistics.

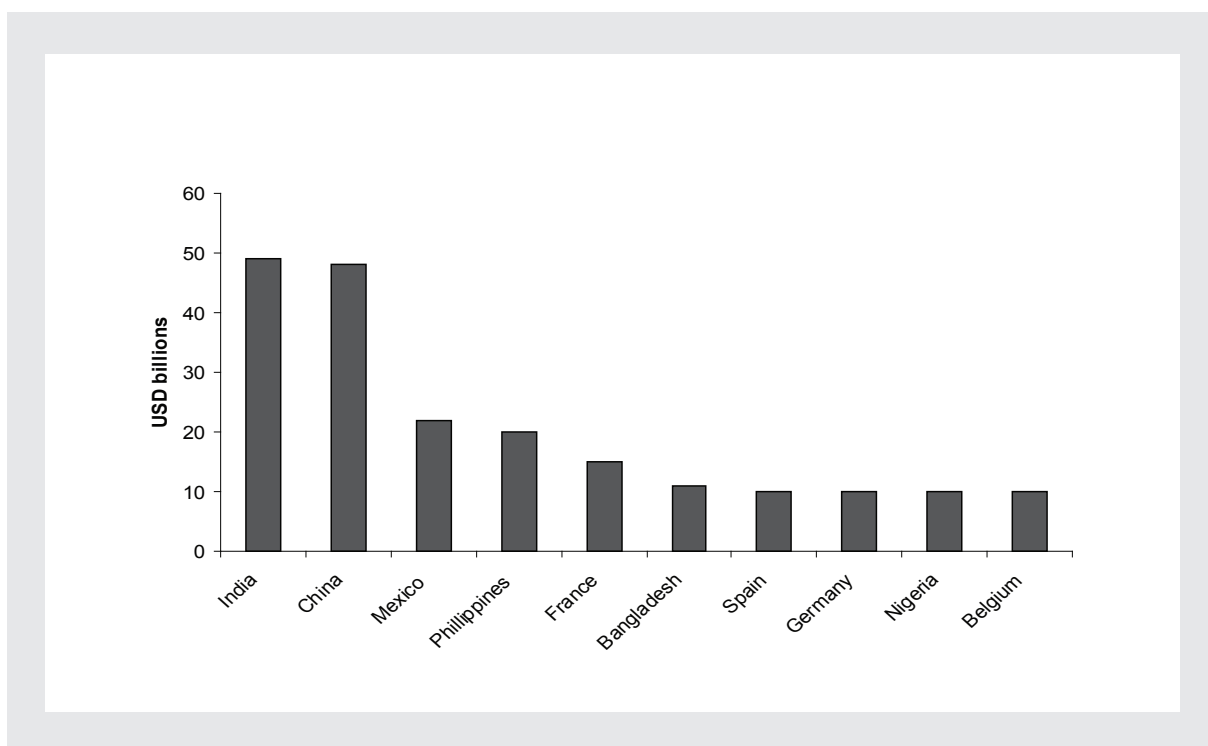
<sup>1</sup> Credit of workers' remittances.

<sup>2</sup> Bangladesh, China, India, Pakistan and the Philippines.

<sup>3</sup> Colombia, the Dominican Republic, El Salvador, Guatemala and Mexico.

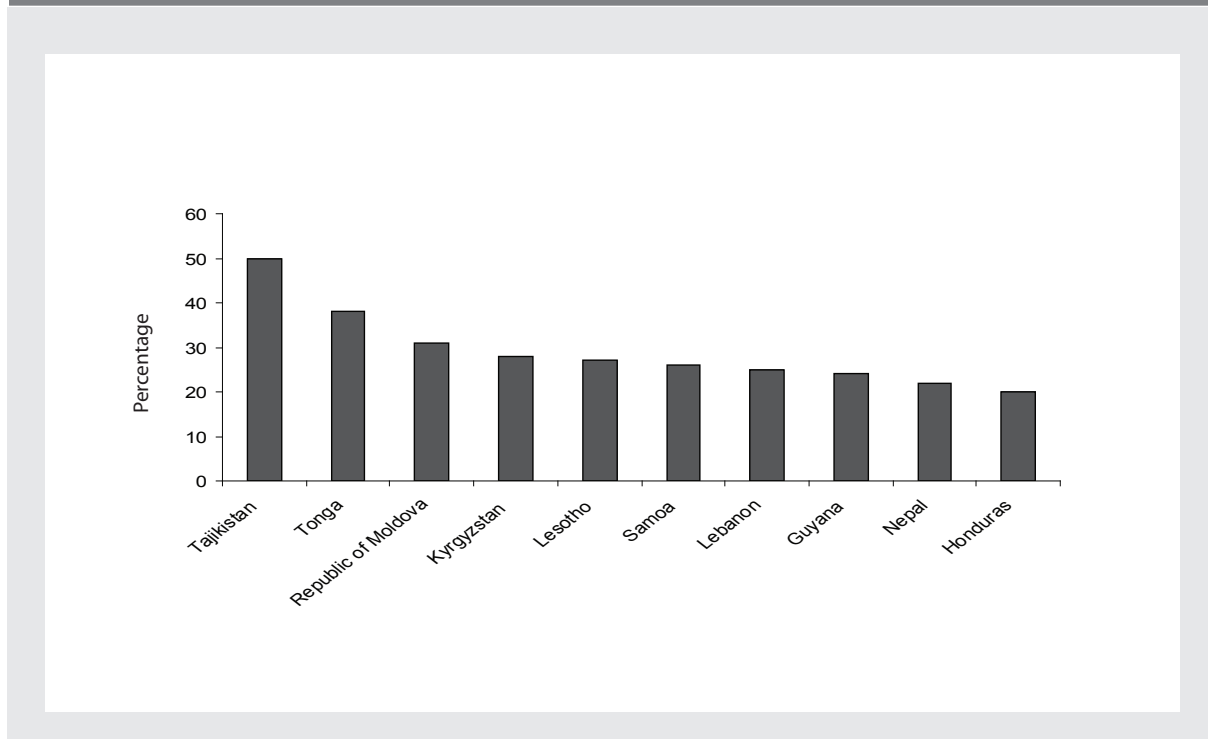
<sup>4</sup> Egypt, Morocco, Nigeria, Sudan and Tunisia.

Figure 4. Top ten remittance-recipient countries (2009)



Source: UNCTAD, based on World Bank data (2008).

Figure 5. Top ten countries in terms of remittances as a percentage of GDP (2008)



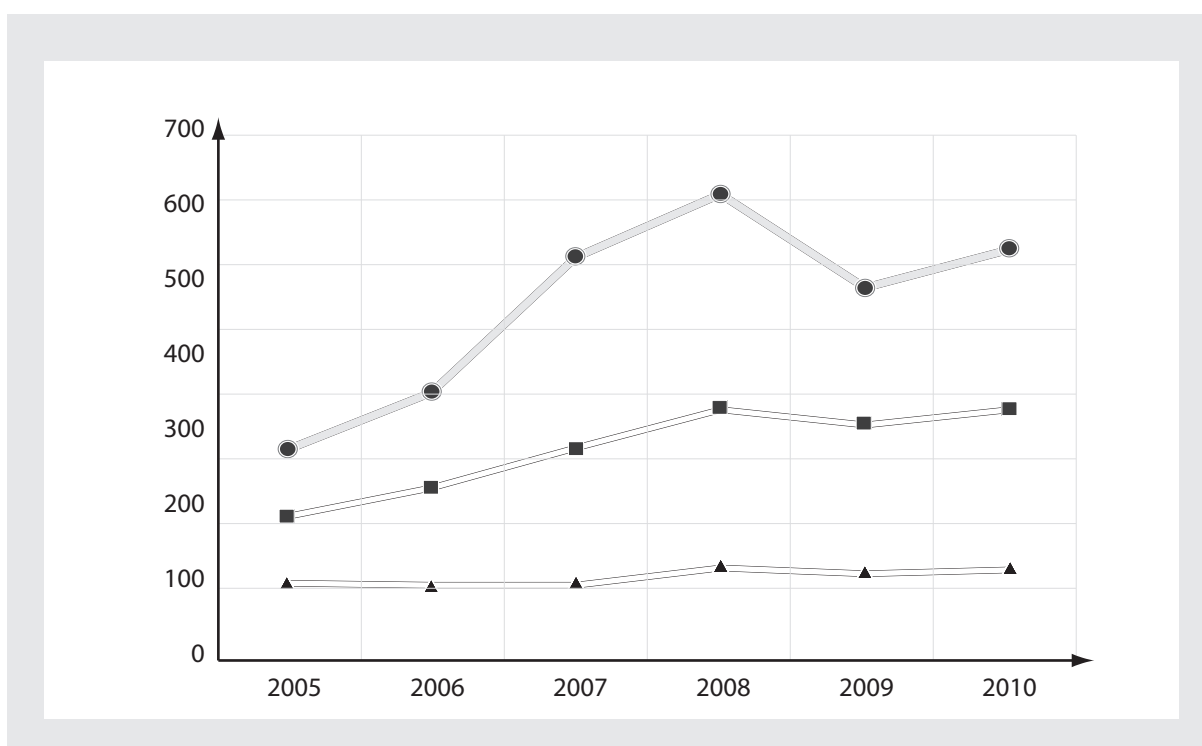
Source: UNCTAD based on data from World Bank (2008).

Figure 6 shows the evolution of FDI and ODA inflows versus remittances in developing countries between 2005 and 2010. FDI tends to be higher in developing countries' balance of payments. However, the gap is getting smaller as a consequence of the crises. FDI fell by about 21 per cent from \$593 billion in 2008 to \$478 billion in 2009. In 2010, FDI arrived at \$593 billion and is not expected to return to the pre-crisis level until more solid economic recovery driven by output levels and trade recovery gains momentum. Remittances became an even more important source of external financing during the crisis and in the recovery phase. The reasons for the resilience of remittance flows include the human value driven nature of remittances, some level of stability of many resident migrants in host countries, and continued demand for many of the services performed by migrants even during the crisis because the services are not performed by locals either due to demographic change or the unwillingness of locals to do them. As economic conditions improve in migrant receiving countries, remittance flows to developing countries are projected to increase by 6.2 per cent in 2010 and 7.1 per cent in 2011, partly offsetting the weak recovery in other financial flows

to developing countries. Remittances to developing countries have been growing faster than official development assistance (ODA), representing capital inflows that are about three times higher than ODA.

Remittances can generate important macro impacts in recipient countries. These impacts can be felt in terms of GDP, exchange rates and reserves, the creditworthiness of a country, exports and imports, and consumption. All these impacts need to be further studied under a longer term perspective as remittances can last at least one generation. As mentioned above, remittances had been countercyclical. Being compensatory in nature, remittances helped recipient households to smoothen their consumption of tradable and non-tradables, directly or indirectly expanding the State's tax base and increasing fiscal space. Stable and crisis-resilient remittances could improve government debt sustainability and reduce sovereign risks. On the downside, remittances may lead to real exchange rate appreciation and damage the competitiveness of tradable sectors (i.e. the Dutch disease effect). Such effects had been stronger for low-income and some middle-income countries,

**Figure 6. Inflows of FDI, remittances and ODA (2005—2010)**



Source: UNCTAD based on WIR, OECD and World Bank data (2010).

and even stronger for those with less open trade and capital flows. Excess capital inflows may lead to monetary expansion and inflationary pressures, while reducing the incentive of governments to maintain fiscal discipline and to undertake necessary poverty-alleviation and infrastructure investments. Some developing economies may run the risk of becoming highly dependent on remittances and discouraging active labour participation in productive activities. This may decrease the domestic labour supply and accumulation of capital, and therefore also economic growth in developing countries. On the other hand, remittances could allow people to leave the labour market to upgrade their education or go into business as it will be seen in the next sections.

#### **IV. REMITTANCES, DEVELOPMENT AND POVERTY REDUCTION**

Remittances by nature are private money transfers, often earned at a high personal cost and driven by household-support motives. While remittances can provide a significant contribution to poverty reduction and local development in remittances recipient countries and regions, they should not be considered a substitute for effective national development and poverty reduction strategies.

In principle, remittances are expected to reduce poverty, as they are, in many cases, directly received by the poor, augmenting their income and alleviating their poverty. In some countries, remittances may make up over 50 per cent of the recipient's total household income. They also represent a more stable source of poverty reduction than other capital flows. Flows can last for one generation or more, and usually go to more or less the same family members.

While there are concerns about brain drain, remittance dependence, and the negative impact of remittances on small countries' export competitiveness due to pressure on currency appreciation, in general, remittances have contributed positively to advancement of the Millennium Development Goals (MDGs). In Nepal, for example, remittances, together with urbanization and higher wages, have resulted in a decline of the incidence of poverty of about one percentage point annually since the mid-1990s (from 42 to 31 per cent).<sup>16</sup> The Asian Development Bank estimates that 4.3 million people in the Philippines

remain above the poverty threshold simply because of remittances. Studies in El Salvador and Sri Lanka find that children of remittance-receiving households have a lower school dropout rate.<sup>17</sup> Qualitative studies in Ecuador, Mexico, the Philippines and Thailand<sup>18</sup> have demonstrated that migration also allows rural women to gain autonomy by taking paid work in urban areas or abroad. Finally, remittances contribute to improving child and maternal health by allowing the purchase of food and medicines. In Guatemala, Mexico, Nicaragua and Sri Lanka, children in remittance-receiving households have higher birth weights and better health indicators than children in other households.<sup>19</sup>

Recent analysis demonstrates that an increase in international migration is positively linked to a decline in the number of people in poverty. Various studies indicate that a 10 per cent increase in the share of remittances in a country's GDP leads to, on average, a decline from 1.6 to 3.5 per cent in the proportion of people in poverty. Despite heterogeneous effects across countries, remittances have reduced the incidence and depth of poverty at the household level in sub-Saharan Africa, Latin America,<sup>20</sup> Asia and the South Pacific.<sup>21</sup> Recent evidence indicates that the effect on reducing the poverty gap could in some cases be more important than the effect on the poverty rate.<sup>22</sup>

A recent study by UNCTAD (see box 1) provides additional evidence on the linkage between remittances and poverty reduction in developing countries. For larger countries such as India, the impact of remittances is perceived as less notable, however remittances do form an important part of the country's economic and financial variables.

Remittances are often considered to be a monetary consequence of social and emotional relations and to be based initially on altruism, which explains why they tend to be spent mainly on household consumption (e.g. at the rate of 86.4 per cent in Mexico), with only a small share saved and invested. While there are differences among countries on how remittances are spent, evidence shows some similarities in the order of priorities that recipient families and sending migrants give to their use (figure 7).

The way in which remittances are used can produce wide multiplier effects in the economy and for development. Such an effect can be felt in the purchase of essential goods and services, home appliances, and medical and education services.



**Box 1. India: Remittances and poverty reduction**

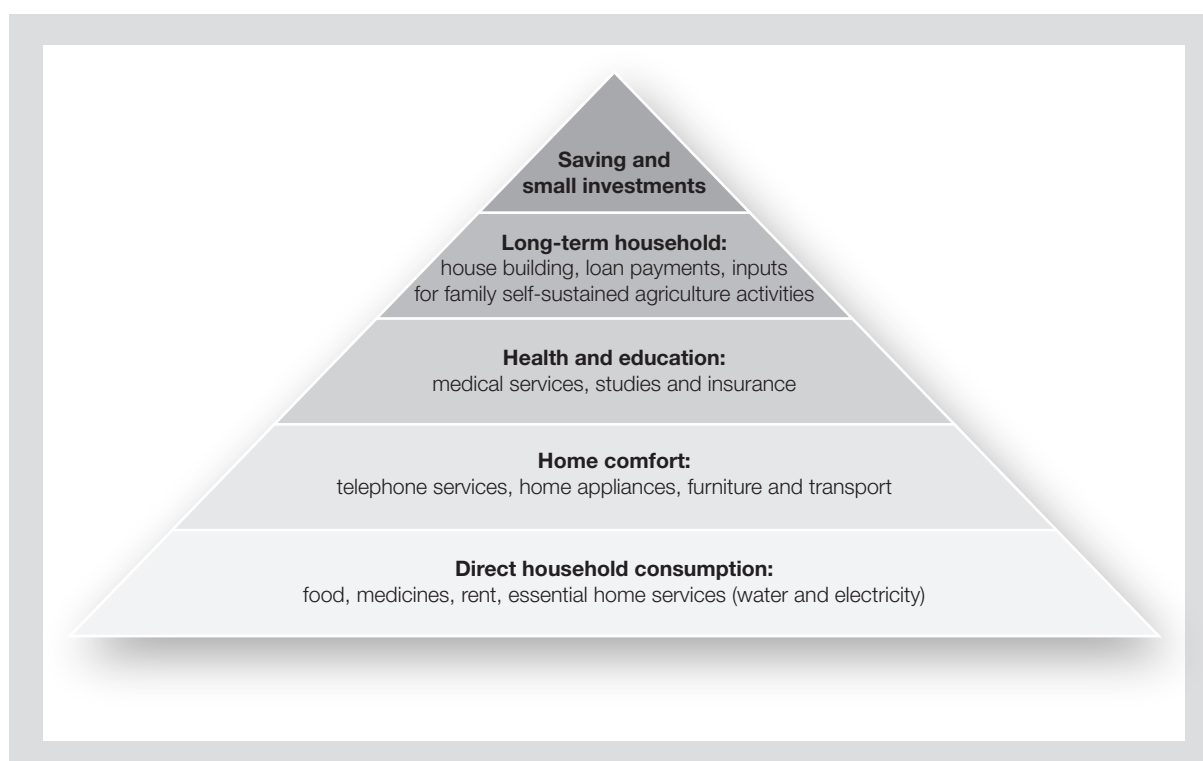
Using the panel data for 77 developing countries (1980–2008), the study finds that remittances significantly reduce poverty in recipient countries, but that results are more reliable for countries where remittances make up 5 per cent or more of GDP. In these countries, on average, for the given level of GDP, a 10 per cent rise in remittances leads to a reduction of 3.9 per cent in the poverty headcount ratio and to approximately a 3–3.5 per cent reduction in the poverty gap.

With respect to India, empirical estimates show that a 10 per cent rise in remittances as a share of GDP leads to a 1.7 per cent reduction in the poverty ratio. At the regional level, the province of Kerala, which receives about 20 per cent of total remittances in India, has experienced higher levels of average per capita consumption than the rest of India. Between 1988 and 2008, it witnessed an increase in annual average per capita net state domestic product by 5.8 per cent, against a 14.7 per cent increase in per capita remittances.

Empirical causal tests undertaken in the Kerala region indicate that higher remittance levels have led to higher per capita income and higher levels of investment, which are considered key variables affecting poverty reduction.

Source: UNCTAD (2010). Impact of Remittances on Poverty in Developing Countries.

**Figure 7. Order of priorities in the use of remittances**



Most of the goods and services consumed (mostly utilities and financial services) are produced locally, except for home comfort goods with a high level of imported component. Such consumption increases the local demand, particularly in poor or rural areas, thereby driving domestic production. To avoid remittance-dependence, investment in education becomes particularly relevant for long-term human development, as professional prospects of the next generation improve, generating less dependency on remittances in the future.

When a share of remittances is used for small business investments, the multiplier effect becomes larger and more sustainable as they create income stream. On average, around 10 per cent of remittances are found to be saved and invested.<sup>23</sup> Evidence shows that remittances help to increase the level of small business activities in the recipient developing countries. For example, in Ghana and Guatemala, about one third of remittances are used for starting small businesses and house construction. Remittances are key sources of finance for investment in farming, or for underwriting risks in new agricultural ventures. Providing financial counselling to remittance recipients helps to mobilize their savings into the financial sector, which could then be utilized for credit to enhance the country's productive base. It has been reported by DynaMicrofinance in Senegal that 20 per cent of its remittance clients have acquired a savings or loan product, in part due to its efforts to systematically offer savings accounts and other financial products to remittance recipients and to explain how they work.<sup>24</sup>

Remittances can help local entrepreneurs bypass inefficient or non-existent local credit markets, especially in rural areas, and to start productive activities. El Salvador<sup>25</sup> implemented a pilot programme (2008–2009), together with a non-profit organization from the United States (TechnoServe), to help small-scale entrepreneurs leverage remittances to access credit and grow their businesses, including hotel and restaurant services.

Several countries have been active in leveraging remittances to alleviate poverty and create wider social benefits. For example, Bangladesh and Ghana have included remittances as a key source of income in their National Poverty Reduction Plans and sought to reduce transfer costs and enhance positive effects. The Philippines has created special funds to encourage enrolment by migrants in the national social security system (e.g. the Flexifund) and to encourage savings for building homes (e.g. the Home Development Mutual Fund).<sup>26</sup>

Remittances can also play an essential role in responding to devastating natural disasters. A recent study has found that remittances tend to rise following crises and natural disasters (e.g. the floods in Pakistan and Bangladesh) and conflicts (e.g. Sierra Leone).<sup>27</sup> Reconstruction can be supported by international aid and assistance and also by private philanthropic support during the initial phase, however this aid cannot be long-lasting. Remittances and other supports from migrants abroad could play a more effective role in the post-disaster recovery and rehabilitation as shown in the case of Haiti (see box 2).

#### Box 2. Remittances and post-earthquake reconstruction in Haiti

Officially recorded remittance flows to Haiti were \$1.4 billion in 2008, but the true figure could be near \$2 billion. Haitian diasporas have played a key role in the reconstruction and rehabilitation of Haiti. In 2009, they sent \$1.64 billion to Haiti, constituting 26 per cent of the country's GDP. Some 300 Haitian hometown associations in the United States and Canada also donated \$10,000 each to their communities for social projects. The temporary protected status granted by the United States after the earthquake for a period of 18 months to Haitians already in the United States enabled over 200,000 Haitians without proper documents to work in the United States legally. This allowed more money to be sent through formal channels.

Source: Mobilize the Diaspora for the Reconstruction of Haiti by Ratha (2009).

## V. LEVERAGING REMITTANCES AND DIASPORA ENGAGEMENT IN DEVELOPMENT EFFORTS

Given the private nature of remittances and the fact that their main use is for covering basic needs, it is a key policy challenge for governments, development agencies and other stakeholders to find ways to leverage their development impact and to mobilize migrant action and capital to promote investment and productive uses. Considerable efforts need to be deployed to overcome migrants' mistrust over and above the difficulties of identifying attractive investment and business opportunities. Several countries have been active in leveraging remittances in devising mechanisms to promote investment, financial stability, businesses start-ups, and local infrastructure building. Also efforts have been deployed by government and development cooperation agencies to further engage diaspora actions and channel their knowledge and social contributions to local development efforts.

Remittances and other diaspora funds (including investment) can be channelled as a source of development finance by home countries to support development and poverty reduction, including the building of local infrastructure and productive capacity. To create opportunities for development-oriented investment from migrants, as stated in the United Nations Doha Declaration on Financing for Development, several tools have been utilized by developing countries.

Diaspora bonds could be used as an innovative tool to support macroeconomic stability and development financing by tapping into the wealth of a diaspora population and opening new marketing channels. They tend to be considered a form of "patriotic" investment more than private money transfers. However, diasporas also pay attention to the potential return and risks of these bonds. India was the first developing country to issue diaspora bonds during the economic crisis in 1991, when it experienced a large trade and fiscal deficit, high inflation and devaluation of the Indian rupee. The Indian Development Bonds targeted at Indian diasporas enabled India to raise \$1.6 billion in a short period of time, which was critical to India's recovery from the crisis. In 2000, the Indian Government sold Resurgent India Bonds to non-resident Indians.<sup>28</sup> Since then, it has been selling diaspora bonds to support the budget and keep the Indian diaspora engaged by using national values as a key component of the marketing strategy. It is estimated to have raised a total of \$11 billion from diaspora bonds.<sup>29</sup> Foreign banks were allowed to sell the bonds, as they were considered better located to serve the Indian diaspora. Tax and credit incentives could make diaspora bonds more attractive. The Philippines has also used this type of bond to finance social housing projects. Greece is also planning to issue diaspora bonds to alleviate the country's debt problem.

Steady flows of remittances and other funds from migrants can have important stabilizing effects on the balance of payments. Despite chronic trade deficits, the current account balance of Bangladesh, Nepal

### Box 3. Turkey: Attracting expatriates' funds to strengthen international reserves

Turkey has allowed its expatriates to open foreign currency deposit accounts at the Central Bank since 1976, when it had difficulty in financing increasing current account deficits due to the oil crisis. Because the Turkish lira was not convertible until 1989, these accounts enabled Turkish expatriates to hold their savings in foreign currency with attractive returns. In order to facilitate the efficient transfer of savings, Turkey signed special agreements with the European central banks, the German postal services, and financial institutions from Europe and the United States, and from Turkey. During the financial crisis in 1994, which led to a sudden capital outflow, the Turkish Government launched a new instrument (Super Foreign Exchange Accounts), offering longer-term and higher interest rates to Turkish expatriates. The two special accounts now account for roughly half of Turkey's international reserves, which can be used as safeguard against swift capital reversals and can help to reduce interest premiums on external borrowing.

Source: Atalay A. (2005). *Almanya'daki İşçi Tasarruflarının Değerlendirilmesi: Kredi Mektuplu Döviz Tevdiat ve Süper Döviz Hesapları Örneğinde Bir Makro Analiz.*

and the Philippines has turned positive with the rise of remittances.<sup>30</sup> Such funds also improve a country's creditworthiness for external borrowing (box 3).

Many migrants, in time, become important investors by setting up businesses in home countries. Starting from 1978, businessmen from Hong Kong (China), Macao (China) and Taiwan Province of China, as well as members of the Chinese diaspora living in South-East Asia, became the first investors to seize the opportunity of China's open-door policy combined with various tax incentives. Most of them started their businesses in China by investing in their regions of origin. They made important contributions to China's trade and development, especially in the early years of China's economic take-off. As their investment is concentrated in the manufacturing sector, they have promoted China's exports in manufactures through their networks in foreign countries, and have introduced new technology and management expertise, thus helping this sector's development. Their success encouraged multinational companies to invest directly in China a decade later. The Indian diaspora has played a well-known key role in the growth of India's ICT outsourcing services through direct investment and by facilitating commercial relations between United States & European firms and Indian firms.

Government assistance, including credit provision and incentives, can induce migrants and diasporas to invest in home countries. Supported by the Inter-American Development Bank, Brazil established a Mutual Fund for Investment in Emerging Enterprises (the "Dekassegui Fund") in the early 2000s, aimed at channelling a small portion of regularly transferred remittances to more productive uses. The fund offers support to Brazilians abroad (principally those in Japan) hoping to open small businesses in Brazil. This support includes the selection and training of potential entrepreneurs in Japan; integration and business training in Brazil; and start-up and growth of new businesses. The results seem to be encouraging, with more than 11,000 entrepreneurs supported, 1,000 training activities, and 3,500 consultancies undertaken to assist Brazilian returnees from Japan between 2005 and 2008. The funds also provide microcredits for start-up businesses, for example in restaurants, food processing, and agribusiness. In Morocco, the Groupe Banques Populaires is a state-owned bank with branches in several European countries. Receiving about 60 per cent of

all remittances to Morocco, it provides subsidized credit for real estate and entrepreneurial investments in Morocco. Bangladesh has announced the creation of an expatriate welfare bank to provide collateral free loans, in particular to returnees, as well as support for investment in productive sectors of the economy. The Philippines currently provides entrepreneur training plus credit access to empower returnees and their families for economic independence by the National Registration Centre for Overseas Filipino Workers. Regardless of the approach taken when providing this type of support, it is important to respond to the specifics of the country concerned rather than attempting to use a "one-size-fits-all" approach.

Diasporas can play an important role in supporting the development of local infrastructure and public services such as roads, hospitals and schools. The Indian Government is presenting an ambitious \$500 billion national infrastructure project to overseas Indians in more than 50 countries.<sup>31</sup> Indian diasporas will participate through public-private partnerships that will include knowledge and financial contributions from them.<sup>32</sup> If successful, this model could open a new way to finance significant infrastructure projects by diasporas interested in promoting development and higher standards of living in their countries of origin. In addition to family remittances, Somali diasporas have built flexible social support networks to gather resources to finance infrastructure, equip schools and hospitals, pay health and educational service providers, and train professionals in Somalia. Members of the Somali diaspora in the Netherlands were assisted by the Diaspora Partnership Programme (DPP) established in 2008 by a non-governmental organization, CARE. DPP strengthens diasporas' capacities to deal with a wide range of local partners to undertake joint development projects. Mexico is also well known for its active efforts in seeking diaspora contributions in local development projects by providing matching funds (the "3x1" citizens' initiative). The programme's budget went from \$5 million in 2002 to \$42 million by 2009, and more than 12,000 projects had been implemented by 2010.<sup>33</sup>

Diaspora spending can attract trade in goods and services (such as nostalgic goods and nostalgic tourism) from countries of origin. Nostalgic goods include traditional exports such as tortillas, tea and curry, which tend to be labour-intensive and artisanal. In this way, the export earnings are more likely to benefit the local population. Nostalgic tourism usually

refers to the circular flow of tourists for holidays and other personal purposes. ILO has estimated that a significant percentage of migrants visit their home countries as tourists. A study on Oaxaca in Mexico shows a positive correlation between nostalgic tourism and local development.<sup>34</sup>

The contribution of diaspora organizations can go far beyond the economic and monetary dimension. “Knowledge and social remittances” – i.e. migrants’ skills, knowledge and networks – are even more valuable in promoting the development of the countries and communities of origin. Social networks are by their nature bidirectional, and allow the circulation of resources, information, values and consumer behaviour. Morocco has initiated the creation of a database of certified diaspora associations to strengthen links and to inform them of investment and development initiatives in Morocco. In Indonesia, in-kind remittances (i.e. goods sent by migrants to their families left behind) have played an important role. Mobilization of the diaspora for development have become one of the most effective means of addressing concerns about “brain drain”, by replacing it with “brain circulation”. Various programmes – including the Migration for Development in Africa programme operated by IOM – have provided opportunities for diaspora involvement in home countries and for sharing their expertise, either through establishing exchange programmes in public administration, or through university training in home countries, or by facilitating the return of diaspora doctors and other healthcare workers to Africa. One innovative programme from ILO (the Green Jobs initiative) linked remittances with green jobs in rural areas, where remittances were used to reduce poverty in a manner that was respectful of the environment.

## VI. ADDRESSING BARRIERS AND HARNESSING OPPORTUNITIES

Significant barriers exist in harnessing the positive roles of remittances in development and poverty reduction. There are barriers that increase the risk or cost of sending home remittances, and barriers that impede new flows of remittances. The former can be found in both home and host countries; they include lack of safe, reliable, affordable and accessible transfer systems for remittances, taxation, information

asymmetries regarding the nature of the services, prices and competition. The latter include migration policies and trade-related barriers including market access limitations related to the temporary movement of natural persons. Remittance flows could benefit from lower transaction costs and facilitated movement of people. Strengthening the financial services sector will be key in reducing cost and channelling remittances into productive sectors.

### A. Addressing Cost-Related Barriers

Several policy options can be identified to ensure safety and security in transactions, ensure affordability and accessibility, promote competition in remittance-related services, increase remittance flows via tax exemptions, and improve transparency and information flows.

Regarding safety and reliability, banks, money transfer organizations (MTOs) and post offices offer the highest levels of security and larger geographical reach through their branch networks. It is generally agreed that remittances transferred through formal rather than informal systems are more likely to be leveraged for development. Many migrants have felt obliged to use informal channels as a consequence of being undocumented. Consular ID cards, such as those as issued by the Mexican Government, could address their needs to access formal financial services.<sup>35</sup> Such cards have been accepted by mainstream financial institutions in the United States. Formal transfers can also reduce the risk that migrants and recipients will be exploited by money-laundering networks. To facilitate access to bank accounts in EU countries, the European Investment Bank and Mediterranean developing countries signed an arrangement to allow migrants access to simplified banking facilities upon presentation of identity or consular registration cards.<sup>36</sup>

Affordability is one of the most important barriers to remittance flows, as the transfer fee is a key cost component of sending remittances. The lower the transaction cost is, the greater the benefits and opportunities are for receiving families and countries to capture development gains and reduce poverty. The volume of remittances from destination countries and the average total cost are closely correlated. The global average total cost fell to 8.7 per cent in 2010, but it remains high.<sup>37</sup> Generally, it is more expensive to send money through commercial banks, with a global

average cost of 12.3 per cent in Q1 2010. Post Offices and MTOs were the cheapest, at 6.7 and 7.1 per cent respectively.

Latin America and South Asia have recorded the lowest regional average total cost for remittances. While transfer cost in Latin America was 5 per cent in 2010,<sup>38</sup> South Asia has seen a consistent drop in average total cost since 2008, from 7.8 per cent in 2008 to below 6 per cent in Q1 2010. Lower costs are the consequence of high transfer volumes and high levels of competition among service providers in both host and home countries. Africa has the highest average cost – between 10 and 14 per cent in the 2008–2010 period – mainly due to lower volume and to lack of competition in the provision of financial services in home countries, for example, owing to exclusivity contracts between MTOs and their agents. South–South transfers are expensive too, with an average cost of 12.3 per cent in Q1 2010.

There are several available solutions to reduce the cost of remittance transfers. Various practices to that end have been adopted by stakeholders – including by destination and recipient countries, post offices, banks and credit unions. The European Union has promoted partnership agreements, particularly with Western African countries, at the continental, regional and bilateral level. It has also taken steps to achieve a gradual reduction in remittance costs (e.g. a recent drop from more than 11 per cent to less than 9 per cent in France), and to cooperate with African diasporas. IFAD's Financing Facility for Remittances group have financed projects and policy advocacy plans that promote competition at national and international levels, offering alternative and better financial options for migrants to use their hard-earned money.<sup>39</sup>

At the national level, Turkish banks, which receive half of workers' remittances transferred, have been using a cost-effective "passing trade system" and collective accounts. The easier and faster passing trade system is similar to a post office transfer and does not need either the sender or the recipient to open an account at the bank concerned. The cash remittance takes place simply on presentation of identity documents valid in the country of residence for the sender and in Turkey for the recipient. The money is transferred to Turkey on the same day, at a lower cost than other financial institutions.<sup>40</sup> The "collective accounts" system has been set up among banks to overcome the constraints caused by the inadequate network of Turkish branches abroad. The Turkish expatriate deposits the money to

be transferred at a Turkish bank abroad, which passes the money to the collective account of the recipient's bank in Turkey. The transaction can take less than four days; the only cost is the transferral fee between different banks, as in the case of the passing trade system.

Costs involved in the migration cycle can impact on the amount of remittances sent home. The upfront costs tend to rise inversely against migrants' skill levels. Employers often cover these costs for more skilled migrants, but lower-skilled migrants frequently have to pay themselves, due to lack of information and bargaining power vis-à-vis recruiters and employers. For instance, Asian migrants moving to Qatar, Saudi Arabia and the United Arab Emirates often pay 25–35 per cent of what they expect to earn over two to three years as recruitment-related fees.<sup>41</sup> Responsibility for reducing the costs of migration lays with both origin and destination countries. Some countries have enacted relevant legislation. For example, Canada and the United States require employers to cover the recruitment and travel costs of migrant workers, and the Philippines has set ceilings on what migrant workers should pay to recruitment agents.<sup>42</sup>

Partnerships between non-governmental organizations (NGOs) and banks could also be considered in addressing this issue. In 2009, the Global Forum on Migration and Development commissioned a study on the feasibility of providing low-cost loans to Bangladeshi migrants, who typically spend a third of their expected earnings over three years on recruitment, travel, and related fees. The study<sup>43</sup> proposes that low-cost loans be provided early in the recruitment process via NGOs already operating microfinance schemes in villages, in partnership with banks. The NGOs would also check the validity and terms of the contracts. The loans would be repaid via remittances sent through the banks. Such partnerships could be launched with donor funds, and should become self-financing over time.

Widespread retail payment networks in home countries have proved to be a relevant factor for ensuring accessibility, particularly in rural or poor areas where such networks do not exist or are not well developed.

Some countries have taken steps to expand networks of remittance services. Mexico has invested significantly in improving the retail payment infrastructure to promote safe and efficient receipt of remittances. It has more collection points than the African

continent.<sup>44</sup> To increase the financial services available in Mexico, particularly to low-income Mexicans, the Banco de Servicios Financieros has created the second-largest network in Mexico of popular banks, microfinance institutions and credit unions to act as remittance distributors. It received about \$580 million of remittances in 2008. In El Salvador, 40 per cent of remittances go to rural areas where there are few commercial banks. The Federation of Salvadorian Savings and Credit Cooperatives (FEDECASES) and other microfinance operators have played an important role in expanding networks, by establishing branches in low-income and rural areas. The success of FEDECASES has attracted support from the IADB to strengthen its financial and administrative capabilities in providing such remittance services. Remittances transferred by FEDECASES went from \$1.2 million in 2001 to \$88 million in 2004.<sup>45</sup>

The postal system can also play a useful role in improving remittance flows, on account of its very wide physical network across the world and the trust placed in it by customers owing to government support and international regulation. Post offices are usually cheaper than banks or money transfer organizations; in sub-Saharan Africa, for example, they were 50 per cent cheaper. Post offices have the potential to reach underserved rural areas, particularly when assisted by international support.

The importance of the postal network for transferring remittances is linked to its three complementary dimensions<sup>46</sup> which are likely to become more integrated in the near future. Firstly, the physical dimension: with a total of 660,000 outlets, post offices are the world's largest physical network. There are almost twice as many post offices and postal agencies (500,000) as commercial bank branches (275,000) in developing countries. Secondly, the electronic dimension: post offices are connected by means of an electronic data interchange network that enabled them to provide electronic money order services and to facilitate trade. (Airlines and customs agencies could also connect to this network.) And thirdly, the financial dimension: more than two thirds of post offices provide some financial services (e.g. money orders, savings accounts, bill payments, social benefits). For example, the financial arm of Japan Post currently held almost \$1.9 trillion in savings, making it one of the biggest financial institutions in the world.

With the implementation of the Universal Postal Union–IFAD project in six West African countries, remittance

volumes increased by 104 per cent and transfer tariffs were reduced by 30 to 50 per cent from 2009 to 2010. Proactive efforts by post offices could provide creative solutions regarding remittance services. At the regional level, under the ASEAN framework on transport and communications cooperation, inter-country remittance services were provided between Brunei Darussalam, Malaysia and Singapore through postal and money orders. In Brazil, the legal constraint allowing only private banks to offer banking services have been overcome by an agreement between the post office and the private banks; this has allowed the banks to provide remittance services at post offices. This has facilitated remittances flows, lowered transaction costs, and allowed banking services to reach peripheral areas.

New smartphone-based products and services can help increase both affordability and accessibility. In many parts of Asia and Africa, mobile phone companies are developing ways of transferring money to remote parts of the country. Under the money transfer arrangement between Vodafone Qatar and Philippines-based Globe Telecom, 200,000 Filipinos working in Qatar will be able to send money to the Philippines.<sup>47</sup> Safaricom, a United Kingdom telecom operator in Kenya, has launched broad financial mobile services to facilitate the transfer of workers' remittances.<sup>48</sup> It has more than 7 million subscribers, generating more than \$88.5 million worth of transactions daily. Efforts are also being deployed by France and French-speaking Africa in identifying regulatory challenges to allow remittance transfers via the internet and mobile phones.<sup>49</sup>

In order to expand mobile money transfer services in developing countries both regulatory flexibility and surveillance are required. Designing appropriate regulatory frameworks for the application of these new technologies to money transfers and financial transactions (e.g. mobile banking) poses a fresh set of challenges for policymakers. In this regard, there is a need to explore options to legalize related operations, harmonize certain technical standards, and take specific measures to address security and consumer protection issues. Joint cooperative mechanisms among central banks, associations of financial institutions, and telecommunication providers in home and host countries could help address some of these challenges. Such cooperation could also serve as a platform to respond to concerns regarding intermediaries and unfair competition practices among

service providers. Current regulatory practices aiming to address money laundering and the financing of terrorism may also limit the spread of new technologies for remittance purposes.

Allowing non-bank institutions such as microfinance institutions to transfer remittances under proper oversight could facilitate distribution and lower transaction costs, in particular when anticompetitive practices are prevalent. Abusive exclusivity agreements between international MTOs and local banks are reported to exist especially in Africa, where 60 per cent of funds are transferred by banks.<sup>50</sup> Such agreements and internal regulations authorizing only banks to operate impede the ability of microfinance institutions to engage in remittance payouts. Development cooperation agencies, international and regional institutions could support the enhancement of regulatory and institutional capacity, especially in Africa where the highest transfer costs are found.

Taxes on remittances could raise transaction costs, incentivize informal transfers, and reduce resources that in many cases go to the poor. Most developing countries offer tax incentives to attract remittances, but a few countries still worry about tax evasion.<sup>51</sup> On the destination countries' side, recently in the United States, the states of Oklahoma and Kansas have imposed taxes on remittances. Oklahoma introduced a \$5 tax on each remittance transaction or wire transfer, plus an added 1 per cent charge on amounts over \$500, generating concerns in Mexico. Both home and host countries need to maintain due restraint on taxes on remittances in order to maintain remittance flows and ensure that they benefit those in need.

The elimination of exclusivity agreements and taxation on remittances and the granting of incentives (e.g. subsidies) can contribute to lowering transaction costs and increasing the level of formal remittance flows. In an effort to facilitate flows of remittances through formal channels, the Pakistan Remittance Initiative offered reimbursement to businesses (i.e. money transfer organizations and banks) sending remittances to Pakistan on the condition that they did not charge customers any fees.<sup>52</sup>

Improving transparency and information flows could help to address information asymmetries and make senders aware of the best transfer options. Centralized information centres and training services in both home and host countries could be particularly useful for low-skill workers. Information provided

could include safe and reliable suppliers of remittance services, means of transfer, and fee comparisons. For example, Mexico and the Philippines (in their overseas workers resource centres) have sought to improve transparency by maintaining a price database that provides competitive price information to consumers. Countries could establish a similar database by using the World Bank's World Remittances Prices Database, which covers prices in the main migration corridors, and country-to-country information. Development aid could play a useful role in helping developing countries to maintain information services, which require human and financial resources.

## B. Addressing Barriers Impeding Flows of Remittances

Migration-related measures found in both home and host countries can deeply affect remittances flows. In home countries, high recruitment fees, a lack of training to empower migrants, and reintegration issues need to be addressed. In host countries, migrant quotas, economic needs tests, labour market tests, management needs tests, burdensome visa requirements and procedures, and an absence of (or inadequate provision of) social protection and welfare benefits for migrants, are commonplace.

An important factor affecting remittances flows is the vulnerability of temporary migrants, which is the result of their irregular status and their lack of knowledge of the legal and economic context of the destination country. For many home countries, irregular migrants account for up to 50 per cent of their workforce abroad. Such vulnerability can pose threats in terms of the continuation, quantity and stability of remittances, and in terms of migrants' confidence in sending remittances home. One option to address certain aspects of the vulnerability of temporary migrants is to promote the adoption, particularly in destination countries, of the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families under the ILO (1990).

Barriers to migration in general, and more specifically to the temporary movement of natural persons (mode 4), can impede temporary and circular migration processes (temporary workers going back home and returning to host countries upon new contracts) and potential growth in remittance flows. The migration policies of destination countries can have important implications for remittance flows. There has been found



to be a correlation between the level of integration of migrants and their preponderance to remit. Legal status, for example, is an important variable in determining the extent to which migrants make contributions to their country of origin.<sup>53</sup> Introducing stricter requirements for visas and work permits without providing facilitated options for temporary migration in sectors where demand for foreign labour is high is counterproductive. Experiences in Eastern Europe have shown that strict migration policies exacerbate human trafficking, pushing would-be immigrants into irregularity and fostering irregular migration.<sup>54</sup> One compelling argument for migrants not leaving the host countries is the prospect of being unable to return due to increasingly strict and burdensome regulations on migration. The more predictable, transparent and open the regular channels are, the fewer incentives there would be for irregular migration. Some migrant workers' programmes have understood this paradox. For example, the return programmes of the Spanish Government for Ecuadorian workers provide cash incentives plus priority consideration in applying for new contracts for workers who have chosen to return home.

By and large, temporary migration is facilitated in highly skilled professions, whereas it is more restricted for lower-skilled labour. Trade agreements can partially address these barriers through the World Trade Organization (WTO) services negotiations in the context of Doha Development Agenda (DDA). Barriers to mode 4 found in key markets include quotas, economic needs tests, burdensome visa procedures, and the lack of mutual recognition of qualifications. Fewer commitments have been made by WTO members in mode 4 than in other modes of supply. Commitments during the Uruguay Round have been low and limited to the higher-skilled categories (managers, executives and specialists), with approximately one half relating explicitly to intra-corporate transferees. While mode 4 technically covers all skill levels, only about 17 per cent of horizontal commitments cover low-skilled personnel, and only 10 countries have allowed some form of restricted entry to "other level" personnel. Existing mode 4 commitments have not produced the expected results for developing countries and LDCs. This imbalance was supposed to be corrected in the DDA, nevertheless offers in mode 4 remain limited. Commercially meaningful commitments in mode 4 could bring important development gains for developing countries estimated at \$150 billion, without including other benefits such as development

and poverty reduction impacts. A great part of these benefits will take the form of remittances. A coherent trade liberalization policy that not only liberalizes movement of goods and capital but also provides real market access in mode 4 will contribute positively to economic integration, poverty reduction, facilitating managed migration flows, and increased remittances.

A special arrangement on mode 4, including market access and regulatory issues, could be explored. It could contain elements such as a stand-still clause on restrictions; focused request and offer sessions with special consideration for LDCs in the WTO Council for Trade in Services (e.g. providing objective criteria for economic needs/labour market tests or progressively expanding quotas); and specific regulatory principles applicable to mode 4 in the domestic regulation negotiations (e.g. balancing requirements for experience vs. academic qualifications, and non-discrimination in relation to the origin of service providers). An early harvest on the most-favoured-nation waiver for LDCs enabling unilateral openings in mode 4 could address some of the barriers in areas of interest to both destination countries and LDCs. Positive outcomes in these areas could become a deal-maker in the General Agreement on Trade in Services (GATS) and other negotiations under the DDA. It could also facilitate continuous flows of remittances, and incentivize circular migration.

Cooperation arrangements and memorandums of understanding (MOUs) on temporary and circular migration could accompany mode 4 commitments and dissipate concerns about making binding commitments in WTO. These agreements usually are agreed between origin and destination countries and are becoming increasingly popular. They tend to cover a wide range of issues including migrant rights, temporary labour flow management, labour and social protection, and facilitation of remittance flows (e.g. the agreement that had been concluded between Ecuador and Spain). In many cases they could also cover special labour arrangements such as short-term employment, recognition of qualifications, and technical and cultural exchanges. By ensuring that migration takes place in accordance with agreed principles and procedures, they can assist in guiding the temporary migration process towards meeting economic, social and development objectives. Deeper engagement, implementation and monitoring of partnerships under the GFMD could also assist in optimizing mutual benefits.

For example, the agreement between Canada and Mexico that was signed in 1974 establishing the Seasonal Agricultural Worker Programme is considered a useful reference point in the promotion of secure, legal and orderly migratory movement between countries. 208,670 Mexicans have participated in this programme as of September 2010. Bangladesh is party to seven such agreements/MOUs (mostly with other developing countries) and another two are being developed. The Philippines has signed several similar agreements/MOUs covering the pre-departure, during the period abroad, and upon return phases with several countries in Asia and the Middle East. One example in this regard is the 2009 agreement on temporary contractual employment between the United Arab Emirates, India and the Philippines, which provides for a framework for worker selection, orientation, training, contract validation, and return and reintegration. The Government of Indonesia has signed MOUs with the top 10 countries receiving Indonesian migrant workers, in order to give them full protection and to ensure their well-being, including by securing the flow of their remittances. International organizations such as IOM and the ILO are playing a supporting role in the proper design and negotiation of these agreements.

Regional trade and cooperation agreements, such as the Caribbean Community, the Andean Community, and the Association of Southeast Asian Nations, can be useful avenues for addressing barriers to the flow of people, including mode 4, as they imply wider and deeper political agreements and trade-offs between Parties that could facilitate some openings in this mode. North–South integration agreements could also offer a facilitated framework; for example, the EU economic partnership agreement negotiations with the African, Caribbean and Pacific Group of States could provide commercially meaningful access to mode 4.

Lack of access to social benefits such as pensions, and their non-portability, affects migrants and reduces their potential to contribute to development through remittances. In the case of lack of access to the social benefits system in destination countries, originating countries could explore facilitating registration and direct payments to the social security system by migrants. Some countries, such as Mexico and the Philippines, allow migrants to contribute to the national pension and healthcare schemes regardless of their access in destination countries.<sup>55</sup> Many

migrants consider returning home after some time, or at retirement age. Encouraging coverage and payments to the social security system to workers abroad could incentivize social investment in pension and health insurance, with benefits upon retirement. Non-portability of contributory pensions not only discourages return and circular migration due to the impossibility of accumulating benefits, but also reduces the amount of remittance money that can be sent home. Solutions to address the portability issue<sup>56</sup> include unilaterally allowing full or partial portability, and bilateral agreements seeking to avoid double contribution of social benefits in both origin and destination countries.

## VII. PROMOTING POLICY COHERENCE IN MIGRATION, REMITTANCES AND DEVELOPMENT

The level of coherence and coordination of policies, regulations and institutions relating to migration and the use of remittances varies among countries. A comprehensive approach that seeks to: (a) set clear and aligned policy goals and priorities; (b) strengthen regulatory and institutional capacity; (c) assess labour market needs; (d) establish adequate mechanisms to facilitate remittances flows and to channel them into investment, savings, and productive capacity; (e) provide for social minimum social security protection, pre-departure and return reintegration training of migrants, as well as multi-stakeholder consultations processes, could facilitate remittance flows for development and rights-based managed migration. Cooperation and trade agreements at bilateral, regional and international levels can also contribute to ensuring benefits from migration and facilitated remittance flows.

An institutional mechanism, as set up by Ecuador in 2007, could facilitate such coherence in countries of origin. The Secretaría Nacional del Migrante (SENAMI) is in charge of all policies related to migration and remittances, with competence at the national and international level. The SENAMI has implemented this comprehensive set of policies through a series of programmes – including offering migrants direct legal assistance, creating links with migrants via the “red de casas ecuatorianas” (offices financed by the Government of Ecuador providing support

services for Ecuadorian migrants abroad), assisting in economic and social reintegration, supporting diaspora knowledge networks. It has also signed cooperation agreements with local institutions, including tax authorities, banks, the post office, the national civil register, and universities, to provide tax incentives (e.g. tariff exemptions for returning migrants' housing and working equipment). SENAMI has introduced facilitated migrant return programmes that provide business plan design, training, and seed capital provision. A bank for migrants to provide low-cost transfers and soft credits is also planned. SENAMI has also signed agreements with public and private institutions abroad to protect migrants' rights, promote circular migration, and facilitate transfers of remittances and mutual recognition of social security.

Bangladesh established – in 2001 – the Ministry of Welfare and Overseas Employment, which had produced relevant regulations and initiatives including a comprehensive overseas employment and migrant protection policy, electronic registration of people interested in migrating, and a census of migrants. It has also set up a policy-monitoring mechanism led by a special task force. The main key policy focus has been to “know your migrants”, i.e. to have a better understanding of the number, composition, skill level and motivations of migrants, and also of the main corridors of migration, so as to design policy responses. Sri Lanka has created a multi-stakeholder committee to formulate and implement a comprehensive national migration strategy to develop a vision for the role of labour migration in the economy, improve protection of migrants' rights, and enhance benefits from migration including remittances.<sup>57</sup> This policy was adopted by the cabinet of Sri Lanka in 2009. More specifically on remittances, Albania has developed a comprehensive action plan which includes expansion of banking services, development of partnerships between national banks in main destination countries, and strengthening of microfinance institutions.

In the Philippines, since the early 1980s, the National Reintegration Centre for Overseas Filipino Workers (under the Department of Labour and Employment) had been implementing the National Reintegration Programme for Migrants together with the Overseas Workers Welfare Administration and the Philippine Overseas Labour Offices. Other institutional partners working on this programme included the Central Bank and the Department of Trade and Industry. Recognizing that labour migration was not a “one-way street”, the

reintegration programme provided three phases of assistance – pre-departure, during the period abroad, and upon return. Indonesia had enacted its Law on the Placement and Protection of Indonesian Migrant Workers, which was aimed at protecting its migrant workers abroad, including through special provisions safeguarding their incomes and remittances.

In destination countries, the EU's Global Approach to Migration aims to create partnership agreements with non-EU countries and to address all migration and asylum issues.<sup>58</sup> It guides several policy areas including development, foreign affairs, employment and social affairs. An example is the EU–Africa Partnership on Migration, Mobility and Employment (2007) which includes specific EU measures such as encouraging the use of one services provider in the EU for remittance transactions, and supporting diaspora groups engaged in development-related activities and country initiatives to safeguard skills for development.

## VIII. CONCLUSIONS AND POLICY RECOMMENDATIONS

Migration is a win-win pro-development opportunity for origin and destination countries. Empirical evidence indicates a positive correlation between remittances, development, and poverty reduction. Remittances have, if properly harnessed, multiplier effects on economic and social development. Proactive policy measures could induce the productive use of remittances and capitalize on diaspora networks for developmental purposes. There is a need for a comprehensive and coherent policy – a regulatory and institutional framework at the national level with the involvement of all stakeholders.

Expanding networks to transfer and distribute remittances, strengthening the capacity of the financial services sector to channel remittances into productive activities, using new technology, and improving information flows can facilitate the efficient transfer and use of remittances. To enable temporary and circular migration and steady remittance flows, there is a need to remove barriers to the movement of people, including through GATS mode 4 commitments. Managing migration and facilitating the flow of remittances also requires increased efforts towards a higher level of policy coherence and cooperation at bilateral, regional and multilateral levels.

More specifically, a set of key policy recommendations made by experts, government representatives, the private sector, NGOs and other relevant stakeholders were made at the UNCTAD single-year expert meeting on “Maximizing the development impact of remittances” of 2011. These recommendations provide a road map for immediate and mediate action not only in the trade realm but also in multilateral migration and development dialogue.

The most important conclusions recommendations made were the following:

- (a) Migration is a win-win pro-development opportunity for all countries in the context of globalization. It should be mainstreamed and integrated into national development strategies.
- (b) Managing migration issues is a shared responsibility between the countries of origin, transit and destination. Bilateral agreements on temporary and circular migration can help maintain secure, legal and orderly migratory movements between countries.
- (c) Remittances are intrinsically linked with migration, and have become a particular driver of the economies of many developing countries. Remittances must be integrated into the overall migration management policy and national development strategy. The gender and youth dimension should be integrated into the management of migration and remittances.
- (d) Remittances have made positive contributions to poverty reduction, economic growth and social development in recipient countries by answering basic needs, enabling investment in housing, health and education, and enabling transfers of knowledge and skills from returned migrants and diasporas. Nevertheless, it must be emphasized that remittances cannot be a substitute for coherent economic development strategies.
- (e) Proactive and targeted policies and measures could enhance the development impact of remittances. These may include
  - (i) financial education and financial inclusion, both for migrants and for recipients of remittances;
  - (ii) the design and marketing of financial products (e.g. savings and insurance products);
  - (iii) technical training in money transfer and financial services;
  - (iv) migrant entrepreneurship training;
  - (v) assistance to SMEs;
  - (vi) the securitization of remittances (e.g. through diaspora bonds).
- (f) While keeping in mind that remittances are private flows, four steps in the process can be identified as maximizing the development impacts of remittances, namely:
  - (i) formalizing remittance flows;
  - (ii) establishing an enabling and competitive environment and conducive regulatory framework;
  - (iii) promoting access to financial services and finance (i.e. linking remittances with other financial products e.g. scaled savings products, credit, insurance, and mortgages); and
  - (iv) developing the range of financial products, including for rural areas, and promoting the use of new technologies.
- (g) Remittance flows need to be improved further, by:
  - (i) reducing transaction costs;
  - (ii) ensuring safety and security;
  - (iii) providing accessible and affordable transfer channels;
  - (iv) eliminating tax on transactions;
  - (v) improving transparency, information and competition in the money transfer markets; and
  - (vi) offering innovative products. The postal network could be an important modality in rural areas, especially where other financial services providers are absent.
- (h) In order to increase remittance flows, measures – especially those that may act as barriers on temporary migration – should be dealt with at national, bilateral, regional and multilateral levels, including at the Doha Round services negotiations. Facilitating temporary and circular migration – including through bilateral agreements – provides a useful solution, which requires cooperation among the countries involved in migration.
  - (i) Policy coherence and integrated approaches are particularly important. Despite the existing policies, experiences and mechanisms available to facilitate migration and remittances, there is room for strengthening and improving cooperation and coordination nationally and internationally – including among origin, transit and destination

countries – and also for experience-sharing and for providing an enabling environment for temporary and circular migration.

(j) A comprehensive approach should seek, inter alia, to:

- (i) set clear and aligned policy goals and priorities;
- (ii) establish and strengthen coherent regulations and institutions;
- (iii) assess labour market needs in destination countries;
- (iv) provide migrants with pre-departure and return reintegration training; and
- (v) hold multi-stakeholder consultations to facilitate flows of remittances for development, and rights-based managed migration.

(k) The following are areas for future action:

- (i) Consolidating current country-specific reviews

of financial regulations and payment systems affecting remittance flows in order to assess what exists, what works, and what could be improved.

- (ii) Establishing an analytical framework and road map to evaluate countries' levels of financial inclusion and financial literacy as a key component of development strategies.
  - (iii) Producing a toolkit and database on pro-development practices and policies that facilitate remittance flows, in order to address barriers and promote productive investments to better harness remittances for development.
  - (iv) Continuing research and holding further expert meetings on the linkages between migration, remittances, trade, investment and development.
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## 2. REMITTANCES AS AN INTEGRAL PART OF MIGRATION POLICIES

William Lacy Swing

Director General, International Organization for Migration (IOM)

Your Excellencies, Ladies and Gentlemen:

It is an honour to be here today and I am grateful to Secretary-General Supachai for the kind invitation to participate in this distinguished gathering. I should like to make three points very briefly:

### I. MIGRATION AS A DRIVER OF THE GLOBAL ECONOMY: SETTING THE SCENE

Today, we live in a world on the move. Numerically, there are more people on the move than at any time in recorded history: 214 million international migrants and 740 million internal migrants. In other words, in a world of seven billion inhabitants, one in every seven of us is in some form of migratory status.

The information and communications revolutions have fuelled these migratory movements. An intending migrant knows at any one time what is going on in any part of the world:

- More than 247 billion emails are transmitted every day.
- Some 1.9 billion persons now have access to the internet (in contrast to only 390 million people in the year 2000).
- Facebook now has more than 500 million subscribers; and
- Twitter has some 200 million users; and both are growing.

While these social media advances have accelerated human movement, it is demographic and labour market trends and widening North-South disparities that will ensure that mass migration will continue well into this Millennium. These realities will ensure that migrant remittances continue to play an important role in the global economy.

It is within this global context that the role of migrant remittances in development is perhaps to be best understood. Migrant remittances are, after all, one of the largest cash flows and cash transfers in the world; remittances are valued by the World Bank to have exceeded US \$440 billion in 2010 – making migrant cash transfers home larger than the GDP of countries such as Austria or Sweden. Developing countries received the lion's share of this at US \$ 325 billion (This figure represents money sent through official channels only – an additional 50 per cent could be added to obtain a rough idea of the real figure, including informal remittances).

Remittances did not start with the modern era. They are by no means a new phenomenon. Remittances are linked intrinsically to migration – the world's oldest development strategy." Migration is the most powerful manifestation of an individual's desire for development – the right to leave one's place of birth or abode in search of new opportunities and a better life.

During the nineteenth and twentieth centuries – years before becoming migrant destinations – European countries were heavily dependent upon remittances sent from their emigrants in the so-call "New World." In 1901, e.g. Italy was the first European country to enact legislation to protect remittances; and in 1960, Spain was the first country to sign an international treaty (with Argentina) to lower the cost of receiving remittance transfers.

What is perhaps new, is the acknowledgement, on the part of governments, international organizations, NGOs and academic researchers alike, that over the past decade or so, migrant remittances are one of the drivers of the global economy; particularly so in relation to developing countries.

In today's world, consider the following:

- Remittances are typically two to three times larger than all bilateral and multilateral Overseas Development Aid (ODA); about as much as all global Foreign Direct Investment (FDI); and, in



some cases, remittances account for up to 30 per cent of annual GDP for a dozen or more countries.

- Remittances are resilient to economic fluctuations – remittances, e.g., fell only 5.5 per cent in 2009 in contrast to forecasts of a 9 per cent decline, and actually registered a quick recovery in 2010 (although this varied significantly from region to region, with China and India's gains somewhat skewing the overall result).
- Remittances contribute importantly to the economic health of developing countries. For example, in the Republic of Moldova, almost one third of all households receive remittances; this represents approximately 60 per cent of household income;
- Remittances percolate quickly to the grassroots level – allowing households to purchase food, healthcare, shelter and education – and thereby cover the most basic of needs and provide livelihood opportunities.

## II. “BEYOND REMITTANCES,” OR “REMITTANCES PLUS”

But remittances can – and do – do more, as you the experts, know from your own experience. After all, migrant remittances are private financial flows.

For this reason, IOM pioneered the idea of “mainstreaming” or integrating migration and remittances into development planning. In this regard, IOM with several of its United Nations partners in the Global Migration Group (GMG), produced a Handbook, entitled *Mainstreaming Migration into Development Planning*. This GMG Handbook was launched last November at the Global Forum on Migration and Development (GFMD) in Mexico.

The handbook provides useful tools to incorporate migration into development planning through the formulation of strategic goals and priorities; the identification of key partners and beneficiaries; and the development of consultative mechanisms and institutional structures.

You, the experts at this meeting, will no doubt review many options for the management of remittances and highlight those that you consider to be “best practices.”

Beyond the immediate impact of remittances on migrant households in countries of origin, the challenge is to influence positively the macroeconomic environment.

In this regard, one enduring question for policy makers is that of creating incentives for migrants and their families to invest “surplus money” that remains after daily expenses to serve as a multiplier for development.

Innovative diaspora programmes can effectively leverage the migrant's contribution with public resources. The Mexican “3 for 1” (“tres por uno”) programme matches each dollar of remittance money sent by a diaspora member through dedicated Mexican Home Town Association abroad with a dollar each from the municipal, state and federal governments in Mexico. This arrangement empowers migrants and promotes local community.

IOM has helped create organized remittance transfer mechanisms that enabled migrants to secure their transfers, reduce the transaction fees paid, and pool their resources so as to maximize their impact. In Tajikistan, e.g., such a scheme is being used to develop sustainable livelihoods through micro-credit schemes, infrastructure investment and education initiatives.

But the contributions of migrants go far beyond the economics of monetary dimension. There are also what we refer to as “social remittances” – migrants' skills, knowledge and networks – these are perhaps even more valuable in promoting development of their countries and communities of origin. Migrants represent untapped economic and social capital.

For example, IOM's Migration for Development in Africa (MIDA) programme provides a rich array of means for diaspora members to become involved in home countries and share expertise – whether (a) through establishing exchange programmes in public administration; or (b) university training; or (c) by facilitating the return of doctors and other health care workers to Africa. Diaspora mobilization for development also represents one of the most effective means to address developing countries legitimate concerns about “brain drain,” replacing it with “brain circulation.”

To support development with “social remittances,” our goal should be that when migrants return home, either permanently or temporarily, they do so either with (a) new or improved skills; or (b) capital to invest.

### III. REMITTANCES AS AN INTEGRAL ELEMENT OF MIGRATION POLICY

My first two points were (a) today's unprecedented movement of people is best understood in the context of globalization (even though population movements have been largely neglected in the globalization debate); and (b) remittances go far beyond the simple transfer of funds even those these constitute one of the largest cash flows in today's economy.

My third and final point logically follows these two, namely that remittances, to make a maximum contribution to development, need to be part of a government's overall migration policy. That is to say, what is needed is a 'whole of government' and "whole of society" approach, one that uses all the options available, including a liberal migration policy

and visa regime, societal integration, circular migration schemes, and a recognition that temporary migration alone is unlikely to satisfy labour market needs.

You as experts will want to consider whether it is indeed through a temporary migration framework that one must seek to remove barriers to improve flows of remittances. It would be important to ensure that permanent migration opportunities not be seen as the preserve of highly-skilled workers with temporary work contracts being set aside for the lower-skilled workers.

There is, in any case, agreement that for remittances to flow around the world, it must first of all be possible for migrants at all skill levels to find and access work opportunities abroad. Properly established and managed, labour migration programmes would appear to be an essential pre-condition.

Thank you.

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### 3. HUMAN RESOURCES AND MOBILITY UNDER A HUMAN RIGHTS CONTEXT

Kyung-wha Kang

Deputy High Commissioner, Office of the High Commissioner for Human Rights  
United Nations High Commissioner for Human Rights (UNHCHR)

Excellencies,

Colleagues,

Ladies and gentlemen,

It is my pleasure to address this expert meeting on maximizing the development impact of remittances.

The issue of migration is one of increasing importance and growing complexity. The Office of the High Commissioner for Human Rights has prioritized the issue of migration within its work, and has consistently called for the protection of the human rights of all migrants, regardless of their immigration or other status. A recent statement of the Global Migration Group, which was adopted under the chairpersonship of the High Commissioner for Human Rights, stressed that being in an irregular situation does not and should not deprive migrants of their humanity or their human rights.

In a myriad of ways, migrants contribute to the countries in which they live and work and to the countries that they leave behind. These benefits are economic as well as social and cultural. Migrants can provide capital and investment to countries of destination and origin; they transfer knowledge, technology and new ideas; and they increase cultural diversity. Human mobility makes societies more dynamic and prosperous.

The United Nations Secretary-General recently recalled the fundamental role that migrants play in strengthening the global economy by contributing to economic growth and human development. The transfer of remittances between countries of destination and origin is an important means through which migrants can make this contribution to development. Remittance flows are now estimated to be three times larger than official development aid transfers.

According to the World Bank, remittance transfers amounted to some USD \$440 billion in 2010. These remittances allow migrants and their families to access health services, schools and private housing

contributing to the realization of their rights, such as the right to health, the right to education or the right to housing. Conversely, when remittance flows shrink or cease, the human rights of migrants and their families can be jeopardized as they are unable to access essential goods and services.

In this context, our Office believes that human rights are an indispensable aspect of the debate on migration and development. Development cannot be defined solely in economic terms. Development, in a more fundamental sense, has to be understood in terms of a process which expands the choices people have in order to lead lives that they value, with the human person as the central subject of development.

When we place human beings at the centre of international migration considerations, it becomes clear that development benefits cannot only be measured in terms of contributions to economic growth. Without equity, without social inclusion, economic growth alone will not alleviate poverty in society and amongst marginalised groups of migrants. The human rights-based approach on marginalisation and vulnerability directs priority attention to those who are suffering discrimination and disadvantage and leads to policies that aim explicitly at alleviating the situation of such persons and groups.

Sadly, around the world today we are witnessing an increase in xenophobia, anti-migrant sentiment and discriminatory practices affecting the human rights of migrants, with irregular migrants at particular risk. This is especially pernicious when such sentiments are reinforced by legislation, regulations and official policies which criminalize and exclude migrants. The High Commissioner has therefore called on all States to respect the internationally guaranteed rights of all migrants, to protect those rights against violations, and to fulfil the rights necessary for migrants to enjoy a life of dignity and security.

It is important to note that remittances are not a substitute for effective national development

strategies. Migrants should not be pushed to migrate, especially in the absence of labour and human rights protection, just to generate remittance flows. Migrants are human beings; they are not commodities or mere “agents of development”. Remittances can also not replace the obligations of States to fulfil the fundamental human rights of their citizens by providing, without discrimination, access to food, health, housing, education, water and sanitation, and decent work.

Remittances are private money, often earned at a high personal cost to the sending migrant. Migrants, particularly those who are in an irregular situation are frequently forced to work in the unregulated parallel economy, where they can be subject to horrific abuse and exploitation. Some migrants may have no choice but to endure substandard working conditions abroad in order to be able to send money to their families and communities back home. There is some evidence that during the recent global financial crisis, many poor migrants have remained in their countries of employment, making even greater sacrifices in order to continue sending money home. High transfer costs of remittances, which can result from a failure to regulate transfer fees and modalities, further erode migrants’ ability to provide for their families.

States need to carefully consider what laws and policies are needed to adequately respond to the human rights issues faced by migrants, to address their vulnerability, and to ensure that their human rights are not adversely impacted by measures designed primarily to maximize the development benefits of remittances and other migration policies. The human rights impact of migration legislation and administrative practice must be a central consideration in the formulation and implementation of policy. It is important to stress that States are legally bound to protect the human rights of migrants, irrespective of their net contribution to the economy.

Migrants whose rights are protected, who are socially integrated, and who are given the opportunity to participate in migration policymaking at local and national levels, are more productive. They contribute more to society, both economically and socially, than those who are exploited, marginalized and excluded. I urge you to pay careful attention to the human rights implications in your discussion of remittances and development over the next two days.

Thank you. I wish you a very successful and productive meeting.

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## 4. WORKERS' REMITTANCES AND ECONOMIC DEVELOPMENT: REALITIES AND POSSIBILITIES

Ralph Chami

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International Monetary Fund (IMF)

Connel Fullenkamp

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Duke University

### ABSTRACT

*The sheer size of remittances inspires hope that these nonmarket income transfers may somehow be channelled into development finance. But such an outcome cannot be presumed. This paper discusses the many ways through which remittance transfers affect aggregate economic activity, arguing that remittances have both positive and negative implications for economic development. In practice, these effects appear to cancel each other out, leaving little empirical evidence that remittances have contributed to economic development. Despite their disappointing record, remittances do have the potential to facilitate development, provided that social institutions can mitigate the negative effects of remittances and enhance their benefits.*

3.6 per cent. On a country-by-country basis, workers' remittances exceeded 1 per cent of GDP (on average) for over 60 countries during this period, and seven of these countries had average workers' remittances-GDP ratios of 15 per cent or higher.

For developing countries, remittances are also large relative to other financial flows. During the most recent 10-year period, remittance flows amounted on average to about one third of export earnings, more than twice private capital flows, almost 10 times official capital flows, and more than 12 times official transfers. Remittances have even recently become as large as foreign direct investment (FDI) flows to developing countries. Thus, although workers' remittances have not been uniformly significant across all emerging economies for a large group of countries in which they are, they represent a resource inflow that often exceeds a variety of other balance of payments flows that have received much more attention from economists as well as policymakers.

Certainly, remittances do not go unnoticed in most of the countries that receive them. Typically, each international migrant leaves several family members behind, and supports them with a steady flow of remittances. Therefore, a global stock of many millions of migrants implies that many more millions of people are directly affected by remittance flows. Because remittances are generally spent on consumption necessities – food, clothing, medicine, and shelter – they help lift huge numbers of people out of poverty by supporting a higher level of consumption than would otherwise be possible. This effect is widely recognized.

Beyond the fact that remittances alleviate poverty, however, their macroeconomic impacts are not well understood. Given their effects on consumption,

### I. INTRODUCTION

Workers' remittances – transfers from international migrants to family members in their country of origin – represent one of the largest sources of financial flows to developing countries. In 2010, over \$325 billion of workers' remittances were expected to be transferred worldwide through official channels, and it is likely that billions more were transferred through unofficial ones.<sup>59</sup> Although the sheer size of remittances suggests that they should be economically important to many countries, their magnitude relative to income flows makes this conclusion seem even more likely. For example, Chami et al. (2008) reported that the average workers' remittances-GDP ratio for all developing countries over the period 1995-2004 is

effects on short-term output from fluctuations in remittance flows are to be expected, and a few papers have estimated remittances multipliers for economies such as Pakistan and Mexico.<sup>60</sup> But a more pressing question is whether remittances have any long-term effects on economic performance, and in particular, whether remittances can hasten a country's economic development. This possibility is suggested by the fact that remittances are essentially unrestricted, private financial flows that could finance investment as well as consumption. In other words, certain aspects of remittances appear, at least on the surface, to be similar to FDI and other private international capital flows, and they may therefore have similar effects on economic growth.

Such thinking seems to be popular among policymakers, who increasingly associate remittances with other private capital flows. The discussion of remittances in the United Nations' Monterrey Consensus document (United Nations, 2003), which has formed the basis of international development finance policy since 2002, is a case in point. Remittances are mentioned only once, in Paragraph 18, and then only in the context of urging countries to reduce the costs of sending remittances internationally. But the very same sentence also goes on to urge countries to "[...] create opportunities for development-oriented investments, including housing." (United Nations, 2003, p. 9) Remittances are thus being associated with other private investment flows, albeit tentatively.

The United States State Department, on the other hand, has been much more forward about suggesting that remittances can play an important role in development finance and promoting economic growth. Its 2005 document, the United States Approach to International Development: Building on the Monterrey Consensus (United States Department of State, 2005), labels remittances as a "development resource" and places remittances in the same category as domestic savings and foreign private investment. A search on the State Department's website reveals dozens of official statements and remarks made by officials emphasizing the size of remittances sent from the United States and suggesting that these funds are being used to facilitate economic development in the recipient countries. For example, a press release produced by the State Department in 2007 (United States State Department 2007) again places a statement about the amount of remittances sent by United States residents directly after a statement

about the amount of FDI originating from the United States. The continual association of remittances with FDI in the State Department's public statements clearly implies that these officials consider the two types of flows to be fundamentally similar in their economic impact.

Policy-oriented economists have also made similar claims about remittances. Ratha (2003), for example, calls remittances "an important and stable source of external development finance" but mainly suggests that remittances could and should enhance economic development rather than show that remittances have actually done so.

Given the importance that policymakers and economists increasingly place on remittances as a potential source of development finance, it is critical to know whether this optimism is truly warranted. This paper provides a brief analysis of the main ways that remittances are believed to affect macroeconomic performance, followed by an overview of the main empirical findings regarding the impact of remittances on economies that receive significant remittance inflows. The purpose of this paper is both to assess whether remittances appear to have made significant contributions to economic development to date, and to suggest the most likely ways that remittances can be used to facilitate future economic development.

The sum of the existing evidence on the macroeconomic impacts of remittances leads to a disappointing conclusion: so far, remittances have contributed very little if anything to economic development. The lack of a consistently positive or negative impact of remittances on growth is due to the existence of multiple paths through which remittances can affect aggregate economic activity. These paths include important negative as well as positive influences of remittances on economic behaviour whose effects may simply cancel each other out. Our findings imply that the naïve perspective that anticipates a positive impact on development simply because remittances represent additional resource inflows is not justified. In other words, remittances do not inherently facilitate or finance economic growth and development.

None of these results imply, however, that remittances cannot or should not be managed more actively as a tool of development policy. Indeed, the analysis of the potential mechanisms by which remittances can facilitate economic development presented in this paper suggest concrete policies that may

be successful in directing a significant share of remittances to the financing of development. Several options are presented at the end of this paper.

## II. REMITTANCES AND DEVELOPMENT: A GROWTH-ACCOUNTING APPROACH

In this paper, we employ a growth accounting framework both because it serves as a convenient organizing principle and because the proof that remittances contribute to economic development is to be found in measurable contributions of remittances to economic growth. These contributions, moreover, should be robust to different measurement methods. Remittance inflows on the scale described above can be expected to potentially have large effects on the rate of growth of productive capacity in the receiving economies. This section examines the channels through which remittance receipts may exert such effects. We consider such channels within a “growth accounting” framework—that is, as effects that operate through capital accumulation, labour force growth, and total factor productivity (TFP) growth. We discuss each path in turn.

### A. Remittance Inflows and Capital Accumulation

There are various ways through which inflows of worker remittances can affect the rate of capital accumulation in recipient economies. The most obvious of these, of course, is by directly financing an increase in capital accumulation relative to what would have been observed if the recipient economies had been forced to rely only on domestic sources of income to finance investment. From a microeconomic perspective, if domestic households face financial restrictions that constrain their investment activities – for example, as the result of poor domestic financial development – remittance inflows may directly serve to ease such constraints, permitting an increase in the recipient households’ rate of accumulation of physical and human capital.

But the effects of remittance inflows on the financing of domestic investment need not operate simply through the additional resources that such inflows

provide. If access to remittance inflows improves the creditworthiness of domestic investors, then large remittance inflows may lower the cost of capital in the domestic economy. In this case, additional borrowing would allow the amount of new investment that can be financed in the presence of remittance flows during any given period of time to exceed the magnitude of remittance flows during that period, since future inflows can be used to service the accumulated debt. In other words, remittances may effectively augment household collateral.

A third mechanism through which remittance inflows may affect domestic capital accumulation is through their effects on domestic macroeconomic stability. To the extent that inflows make the domestic economy less volatile, they would tend to reduce the risk premium that firms demand in order to undertake investment, and thus make domestic investment more attractive. Chami, Hakura and Montiel (2009) show, using a large sample of remittance-receiving countries, that remittances do reduce output volatility.

However, none of these effects need necessarily materialize in remittance-receiving economies, and even if channels such as these are operative, their effects on growth need not be positive in every case. First, given their compensatory nature, it is quite probable that remittances will be received by households with a high marginal propensity to consume, and therefore, simply may not be directed in significant quantities towards investment. For example, Abdih, Barajas, Chami and Ebeke (2011) show that remittance flows into the Middle East and North Africa region fuel consumption of domestic and foreign goods and raise tax revenue on such goods, with very little going to investment.

Second, if remittances are perceived to be permanent, they may tend to stimulate additional consumption rather than investment, even in the presence of credit constraints. This would imply positive effects on household welfare, but not necessarily on aggregate economic growth. Finally, the more highly integrated an economy is with world financial markets, and the more highly developed the domestic financial system, the less likely it is that remittance receipts will stimulate investment by relaxing credit constraints.

As discussed above, remittance receipts could conceivably stimulate additional investment in the form of human capital accumulation. They could do so by financing the cost of this investment directly,

or by reducing the need for younger members of the household to abandon formal schooling in order to work and contribute to household income. However, the effects on domestic economic growth will depend on the recipients' subsequent participation in the domestic labour force. Positive growth effects obviously would not be forthcoming if the extra education funded by remittances makes it possible for the recipients themselves to emigrate, for example.

## B. Remittance Inflows and Labour Force Growth

Remittance receipts may also influence growth through their effects on the rate of growth of labour inputs (while holding the level of human capital fixed). One channel through which remittances could impact labour inputs is through labour force participation.<sup>61</sup> Remittance receipt would be expected to have a negative effect on labour force participation, for the following reasons. To the extent that remittance inflows are simple income transfers, recipient households may rationally substitute unearned remittance income for labour income. In addition, regardless of their intended use, remittance transfers may be plagued by severe moral hazard problems, an idea that was first formalized by Chami, Fullenkamp, and Jahjah (2003). Because these flows occur under asymmetric information and in a context in which monitoring and enforcement are made extremely difficult by the distance separating remitter and recipient, moral hazard problems may induce recipients to divert resources to the consumption of leisure, thereby reducing their labour market effort.<sup>62</sup> Anecdotal evidence of the labour effort effect is abundant, and academic studies have detected such an effect as well.<sup>63</sup>

## C. Remittance Inflows and TFP Growth

Remittance receipts may affect TFP growth through effects on the efficiency of domestic investment as well as through effects on the size of domestic productive sectors that generate dynamic production externalities. Whether such effects actually arise in a remittance-receiving economy, however, depends on a variety of factors which may vary from one economy to another.

Remittances may affect the efficiency of investment by altering the quality of domestic financial intermediation. There are at least two ways in which this can occur. First, if remittances are primarily disguised capital inflows – that is, if the recipients are investing on behalf of the remitter – then efficiency of investment is affected to the extent that the agent making the investment decision, whether the remitter or the recipient, possesses some informational advantage or disadvantage relative to formal domestic financial intermediaries. For example, if the agent making the investment decision is a family member who receives a migrant's remittances, and if that family member is less skilled in allocating capital than are domestic financial intermediaries, then having the resource flow take the form of a remittance receipt rather than a capital inflow intermediated by the domestic formal financial system would reduce the efficiency of domestic investment. It is unclear, however, what portion of remittances are intended to be invested, and whether those investing the remittances have informational advantages or disadvantages, on average, relative to banks or other intermediaries.

Remittances may also affect the ability of the recipient economy's formal financial system to allocate capital. Remittances are likely to expand the quantity of funds flowing through the banking system.<sup>64</sup> This in turn may lead to enhanced financial development and thus to higher economic growth through one or both of two channels: (1) increased economies of scale in financial intermediation, or (2) a political economy effect, whereby a larger constituency (depositors) is able to pressure the government into undertaking beneficial financial reform. But again, neither of the efficiency-enhancing effects just described is certain. For example, the political economy mechanism arising from a larger banking system may actually have an adverse effect on financial development: depositors may lobby the government for reforms favouring safety over improved efficiency in intermediation, increasing bank concentration and causing banks to increase their holdings of safe assets rather than more productive, but possibly riskier, forms of lending.

A different mechanism through which remittances may affect TFP growth is by changing the size of dynamic production externalities generated by an economy. Remittance inflows may lead to real exchange rate appreciation, which in turn implies a potential for Dutch disease effects in remittance-receiving countries. Such effects would materialize if equilibrium real exchange



rate appreciation results in the contraction of sectors of production that generate dynamic production externalities (such as manufacturing exports). As with the mechanisms described previously, however, this is not a necessary result. Its emergence depends not just on whether remittance inflows indeed result in real exchange rate appreciation, but also on whether the nature of traded goods production in the remittance-receiving country is actually likely to generate dynamic production externalities.

There are also broader political economy effects of remittance flows that could affect growth through all three growth accounting channels considered above. In particular, to the extent that remittances provide domestic households with a source of income that is independent of the domestic production process, the presence of remittance inflows reduces the incentives for private citizens to monitor and manage the domestic government's policy performance. Moreover, since the costs of poor domestic macroeconomic performance are at least partially shifted on to migrants, who increase their transfers to domestic residents when things go badly at home, remittances create a moral hazard problem for the domestic government. The upshot is that large remittance inflows may undermine good domestic governance, with widespread implications for the quality of the domestic policy environment that may have adverse effects for capital accumulation, TFP growth, and growth in labour inputs. Recently, Abdih et al. (2008) find evidence that remittance flows adversely impact the quality of institutions in recipient countries. In particular, remittances expand the tax base, enabling the government to appropriate more resources and distribute them to those in power. By acting as a buffer between the government and the people, remittances allow government corruption to be less costly for households that receive those flows.

Overall, this discussion shows that there are many potential effects of remittances on economic growth, but these effects are of highly uncertain magnitude and conflicting direction. The main implication that emerges is that the effects of remittance inflows on the economic growth of the recipient economy are theoretically ambiguous. In the next section we review recent empirical work on the remittance-growth nexus and show that it too finds effects of uncertain magnitude and conflicting direction.

### III. RECENT EVIDENCE ON THE GROWTH EFFECTS OF REMITTANCES

Studies of the growth effects of remittances tend to be of two types: attempts to detect specific channels through which remittance inflows may affect growth; and estimates of the effects of remittance inflows on economic growth, in the tradition of the cross-country growth literature. Although relatively little research has focused on estimating specific transmission mechanisms through which remittances can affect economic growth, there is a growing literature investigating so-called Dutch disease effects of remittances. In general, this literature finds that remittances do tend to lead to real exchange rate appreciation, which is a necessary condition associated with Dutch disease effects. Barajas et al (forthcoming), for example, estimates that remittances do lead to real exchange rate appreciation, though the effect is small. Acosta et al (forthcoming) also show that remittances tend to lead to real exchange rate appreciation. They also find evidence of a shift into non-tradables at the expense of the export sector, but only in economies that maintain a fixed nominal exchange rate.

There is a much larger literature that attempts to estimate the impact of remittances on growth via reduced form macroeconomic models. The earliest such study, by Chami, Fullenkamp, and Jahjah (2003), found that whereas domestic investment and private capital flows were positively related to growth, the ratio of workers' remittances to GDP was either not statistically significant or negatively related to growth. Since this time, many subsequent studies have been performed, and their main findings can be summarized in the following way.

The estimated impact of remittances on growth is highly sensitive to the choice of conditioning variables, time period, estimation method, and instrumental variables. Results from different studies<sup>65</sup> cover the full gamut from negative effects, to no discernible effects, to positive effects.

When a positive effect of remittances on growth is found, it tends to be a conditional effect. For example, the findings of Giuliano and Ruiz-Arranz (2005) suggest that remittances have a positive impact on GDP growth when the financial markets are relatively underdeveloped (measured by M2/GDP ratios).<sup>66</sup>

The argument is that in this setting, remittances would loosen the credit constraints imposed on households by a small financial sector. It should be noted, however, that even these conditional findings are not robust to changes in data or estimation technique.

The most accurate conclusion that can be drawn about the impact of remittances on growth appears to be that there is no robust evidence that remittances have made the sort of contribution to economic growth that has been hoped for. A recent study by Barajas et al (2009) performed a comprehensive set of estimations that included nearly all of the conditioning variables, instruments, specifications and estimation techniques previously employed in the literature, and added new instruments as well. The estimated coefficients and their significance were highly sensitive to the choice of conditioning variables and estimation method. Most of the estimated impacts of remittances on growth were small in magnitude and lacking in significance, especially when a larger set of conditioning variables was included in the specification. And when the estimated effect of remittances on economic growth was statistically significant, it tended to be negative rather than positive. Perhaps the most persuasive evidence in support of the claim that remittances have not made significant contributions to economic growth is the lack of a single example of a remittances success story: a country in which remittances-led growth contributed significantly to its development. Given that some countries' remittance receipts exceeded 10 per cent of GDP for long periods of time, we should expect to find at least one example of this phenomenon during the past four decades. But no nation can credibly claim that remittances have funded or catalysed significant economic development.

#### IV. POLICY OPTIONS

Part of the reason why remittances have not spurred economic growth is that they are generally not intended to serve as investments but rather as social insurance to help family members finance the purchase of life's necessities. Remittances lift people out of poverty but they do not typically turn their recipients into entrepreneurs. The intriguing possibility remains that remittances can be channelled somehow into achieving both of these ends, but this will require the development of policies and institutions that can help recipients of remittances make the most of the transfers they receive.

Given the above discussion of the potential impacts of remittances, we recommend the following policy initiatives:

Each country should study how remittances are currently being used by their recipients. Most evidence on remittance receipt and usage is limited and out of date, so that policymakers do not have an understanding of the obstacles that prevent remittances from being used to facilitate development, or what kinds of development-friendly activities (i.e., education, business formation, investment) remittance recipients would be most likely to engage in.

- Upgrade financial infrastructure at the retail level, increase the bank performance rate and improve financial literacy. Although remittances are large, at best only a share of them will be used for investment, since they are primarily used to meet a family's basic human needs. Thus, remittances must benefit from the leverage available in the financial sector in order to finance significant development. But this means that remittance-receiving households must be willing and able participants in the financial system.
- Facilitate the use of remittances as collateral for loans (again at the retail level) to finance productive investments in human and physical capital. Since remittances are a relatively stable source of income, they mimic the characteristics of employment income from a secure job. Thus, programs can be designed to promote the acceptance of remittance income as collateral for private loans, or to subsidize loans for which remittances are pledged as collateral, provided that the loans are used to finance productive investments.
- Take advantage of the fiscal space created by remittance flows to engage in public investment in infrastructure and institutions. An alternative approach to a private-sector-focused program is for the government to increase expenditures on infrastructure – and institution-building projects. Recent work by Abdih et al. (2011, 2008) provides empirical evidence that remittances fuel consumption, thereby expanding the tax base and with it government revenue. Remittances effectively provide governments with additional fiscal space that they could potentially utilize by borrowing and investing the proceeds in public infrastructure.

## V. CONCLUSION

The main argument of this paper echoes the recent criticisms of foreign aid presented by Rajan and Subramanian (2005) and others, who point out that there is very little evidence that decades of official transfers have contributed much to the growth of developing economies. Similarly, historical experience and academic research both suggest that decades of private income transfers – remittances – have contributed little to economic growth in remittance-receiving economies and may have even retarded growth in some. This outcome reflects several realities regarding remittances that need to be better appreciated by those who wish to channel them into economic development. First, there are many ways that remittances can affect economic activity, some beneficial and some harmful. Second, remittances do not naturally flow into growth-enhancing activities and may in fact tend to flow into growth-reducing

activities because of the moral hazard problems associated with them. Finally, a country that wishes to reap a development benefit from remittances faces two demanding conditions. On one hand, it must have institutions and infrastructure in place that would enable it to channel a higher portion of remittances into growth-enhancing activities through the private sector, and the financial system in particular. On the other hand, it must have the political will to use the fiscal space granted by remittances wisely, by investing in high-returning public goods and infrastructure. To this extent, our argument follows the spirit of the Monterrey Consensus, which emphasizes the importance of having well-functioning domestic institutions as a prerequisite for faster economic development. Remittances do have the potential to facilitate economic growth, but they will realize this potential only with the support of strong social and economic institutions.

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**PART II**  
**FACILITATING REMITTANCES FLOWS AND  
ENABLING FINANCIAL INCLUSION**

# 1. REMITTANCES AND ASSETS: CONCEPTUAL, EMPIRICAL AND POLICY CONSIDERATIONS AND TOOLS

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## I. INTRODUCTION

The link between remittances and development lies at an intersection that can transform the material base of migrants, their relatives, and their societies. The theoretical and empirical review looks at the effects of these flows on the economic and financial system of a country. The units of analysis utilized that link with remittances are macroeconomic factors, financial institutions, and assets. As aggregate flows, remittances influence national reserves, foreign currency exchange and saving and credit ratios. Remittances also play a role in providing financial access to both migrants and remittance recipients, and thus help people build financial assets. The following work aims at explaining research that shows that remittance recipients are more likely to save and have bank accounts than non-recipients.

Within this conceptual and empirical framework on remittances and development, the second area of work will introduce tools and lessons learned that integrate strategies that governments and other stakeholders can adopt to help migrants and families build assets and accumulate wealth. These tools include technical assistance mechanisms for financial product design as well as mobile technology transfers, among other instruments.

## II. THEORY AND CONCEPTS ON REMITTANCES

### A. What Are Remittances: Academic and Technical Definitions

Remittance transfers are defined by various groups and predominantly in reference to migrant workers. Worker remittances have generally been understood

as the earnings migrants send from a country other than their own to a relative in their country or origin for the purpose of meeting certain economic and financial obligations. The point of departure for remittances is the migration of people who respond to the complex reality of the foreign labour marketplace, political circumstances and/or emergencies that influence one's decision to move in order to meet their responsibilities at home.<sup>67</sup>

Within the context of the recipient of the funds, and from a development policy context, remittances are a share of a household's total income. Depending on the region in the world and within a country, income dependence on remittances represent between 50 to 80 per cent of all income. The highest dependence is found among populations with large seasonal labour migration and the lowest among those with longer time receiving and having other sources of income. Comparatively these households' incomes are larger relative to those who do not receive remittances, typically by 30 per cent.<sup>68</sup>

### B. How Are Remittance Transfers Measured?

Central Banks have taken on the task of accounting for these flows following some basic methodologies (Millis and Orozco 2008).<sup>69</sup> Various sources of data collection are utilized by Central Banks, among them are international transactions reporting system (ITRS), direct reporting by remittance service providers, particularly from money transfer operators, and household survey data using different methodologies. The first source is the typical requirement by governments on banks to report any international foreign currency transfer. The second is that provided by MTOs predominantly. A third source is from household surveys that include questions on who receives and how remittances are received. Most countries rely at least on one source or a combination. An effective

method consists of relying on the three methods. The Armenian government, for example, utilizes ITRS and MTO data, but runs large sample household surveys in order to estimate a coefficient of informality (Orozco 2008). One of the challenges of collecting data from ITRS and MTOs is determining what constitutes a remittance among all transfers received. Not all bank wires or transfers to MTOs are worker remittances, and some Central Banks give these institutions the discretion to decide what constitutes a remittance (typically anything under US\$1500). Household surveys also are not always reliable as they depend on the expertise of surveyors of knowing how to collect data on migration issues. Those countries where the size of the immigrant population is better known and informal flows are low, are more successful in getting more accurate data.

### C. Are There Theoretical Perspectives?

Studies on remittances have approached the subject from various angles. On the determinants, there have been two approaches, first an approach associated

to the material circumstances shaping remittance transfers (income, education and occupation, wealth and number of dependents in the home country, informality of markets). A second approach is about the motivations of remitting. Here the literature has argued that motivations can be altruistic, self-interested, contractual or risk mitigating. Altruistic approaches argue that senders do so as a mere sense of personal satisfaction to help the family. The self-interested perspective stresses that people remit with the interest of gaining a material or symbolic return in the future (joint property, inheritance, etc.). The contractual perspective has looked rather at the assumption that the household makes a decision to invest on a member of the family to emigrate and remit. The risk mitigation approach argues that people remit in order to prevent risks in the future. Each of these theories has been tested and proven right under different case studies but there is no conclusive evidence. Moreover, there exists disagreement as to whether the conceptual frameworks correspond to the complexities of real life challenges and needs to remit.

**Table 2. Geographic distribution of remittances (as percentage of total flows received)**

Destination	Origin					
	SE Asia/ Oceania	North America	Western Europe	Russian Federation/ Kazakhstan	Arab Oil Exp.	Africa
East Asia & Pacific	37	41	12	0	1	0
Europe & Central Asia	5	18	46	11	1	0
Latin America & Caribbean	2	77	15	0	0	0
Middle East & North Africa	2	14	44	0	8	0
North America	4	38	51	0	0	0
South Asia	4	30	18	0	11	0
Sub-Saharan Africa	3	19	45	0	3	5
Distrib. (87% of the world)	10	35	31	5	3	0

Source: Orozco, Manuel (2007). Estimating Global Remittance Flows: A Methodology. Washington, IAD. IFAD (2007). Sending money home: Worldwide remittance flows to developing countries, Rome.



### III. EMPIRICAL CONSIDERATIONS: A GLOBAL REVIEW OF REMITTANCES

Migrants have become substantively and more directly involved in different economic and social activities in their countries of origin. This is due in part to the dynamics of globalization and to new opportunities resulting from political and economic opening in their home societies. An immigrant's economic linkage with

their home country extends to at least four practices: family remittance transfers, demand of services, capital investment, and charitable donations.

The estimated volume of remittances may conservatively be around US\$400 billion.<sup>70</sup> Looking at the regions in the world, Table 2 shows that remittance flows go to all regions in the world but with differences within some regional areas. First, nearly 90 per cent of all flows come from these five regions of the world, 35 per cent and 31 per cent of which originates from North America and Western Europe respectively.

Table 3. Characteristics of migrant remitters

Sending from	Sending to	Percent of migrants who remit	Amount	Frequency	Amount per year	Length of time	Relative to income %	Personal Income	Survey Date
Russian Federation	Azerbaijan	60	300	6	1,800	5	23	7,908.50	Apr-07
	Georgia	60	300	8	2,400	5	30	7,908.50	Apr-07
	Rep. of Moldova	60	300	7	2,100	4	27	7,908.50	Apr-07
France	Morocco	60	434	10	4,342	10	23	18,956.20	Mar-10
	Senegal	60	372	10	3,722	9	17	21,879.90	Mar-10
Italy	Nigeria	80	100	5	500	4	7	6,766.00	Apr-09
	Peru-Ecuador	80	225	12	2,700	7	31	8,726.00	Apr-09
	Philippines	80	300	12	3,600	9	40	8,901.00	Apr-09
Spain	Colombia	80	250	12	3,000	6	26	11,371.00	Apr-09
	Morocco	80	150	7	1,050	5	9	11,944.00	Apr-09
United States	Bolivia	75	300	11	3,300	6	14	23,198.92	Apr-08
	Colombia	75	200	14	2,800	7	13	22,263.16	Apr-08
	Dominican Rep.	75	190	12	2,280	8	12	19,421.05	Apr-08
	El Salvador	75	260	12	3,120	6	15	20,833.33	Apr-08
	Ethiopia	75	150	12	1,800	8	7	26,883.12	Apr-08
	Ghana	75	217	12	2,600	8	11	24,327.96	Apr-08
	Honduras	75	229	12	2,748	5	12	22,219.10	Apr-08
	India	75	400	12	4,800	6	17	27,741.94	Apr-08
	Mexico	75	230	12	2,760	6	17	16,618.42	Apr-08
	Nigeria	75	208	12	2,500	7	10	24,095.74	Apr-08
	Paraguay	75	200	12	2,400	6	10	23,411.76	Apr-08
Philippines	75	350	12	4,200	6	17	24,329.90	Apr-08	
Saudi Arabia	Bangladesh	90	-	-	-	-	-	-	-
Japan	Philippines	80	600	7	4,800	4	15	-	May-05

Source: Orozco, Manuel and Mariellen Jewers, (2010). Skilled Diasporas: An Imagined or Real Community? Survey data collected by the author between 2007 and 2010.

Second, these regional corridors show variations in the dependency on remittances. Most of Latin America receives from North America, particularly the United States, whereas Africans mostly receive from West Europe (see Table 2).

### A. Dimension and Characteristics of Senders and Recipients.

Although migrants throughout the world send money home, the percentage of migrants that remit varies by region. In most industrialized nations of the West, less than 70 per cent of migrants remit back home compared to those working in South-East Asia, or the Gulf countries, where the percentages can be as high as 90 per cent.

Their average amount sent also varies predominantly in relation to their income and their family needs back home. In Canada, the United States, Western Europe and Japan migrants remit an average of US\$5,000 a year to their relatives, whereas migrants in Russia and the Gulf countries remit less than half that amount, and migrants moving to regional places such as West Africa, South America, or Central Asia remit less than US\$1,000 to predominantly rural areas.

Moreover, migrants are predominantly low income and financially disenfranchised with little access to the banking system. This condition curtails their ability to improve their material circumstances.

Those who receive remittances include households where a spouse or a mother of a migrant is the main recipient. Depending on the countries, the per cent of households receiving remittances ranges from 1 to 30 per cent. One of the key issues of remittances among recipients is the extent of income dependence on those flows. In most cases, recipients do not depend exclusively on these flows, dependence ranges from 50 to 90 per cent depending on households and countries.

### B. Market Place Issues

Remittances are sent through either official or licensed channels (money transfer operators, banks, postal unions) or informal mechanisms. In most industrialized countries, about 60 per cent of migrants use predominantly licensed mechanisms.<sup>71</sup> In Africa, intraregional flows are predominantly, if not exclusively, informal because laws do not allow outbound

**Table 4. Worldwide fee costs (as percentage of sending US\$200)**

Region	2008	2009	2010
Central Asia	2.93	2.44	2.50
Central America	5.26	5.12	4.95
Southern Asia	7.97	6.96	6.27
South-East Asia	9.43	7.24	6.56
Mexico	5.80	6.31	7.42
Northern Africa	12.29	9.67	8.19
Eastern Europe	7.30	8.38	8.22
Western Africa	9.50	9.39	8.23
Caribbean	10.81	9.66	8.48
Western Asia	6.29	7.46	8.61
World Average	9.13	8.88	8.68
South America	7.64	7.47	9.13
Eastern Africa	14.03	11.69	9.78
Eastern Asia	12.88	13.20	12.09
South Pacific	-	12.00	12.44
Southern Africa	15.32	15.18	13.13
South Africa	15.93	14.71	14.76
Central Africa	12.75	15.01	15.11
East Asia	16.16	20.46	20.47

*Source:* Data compiled by the author for the World Bank in collaboration with DMA. The data represent a sample of 76 countries receiving remittances from 2008 to 2010.

international transfers of individuals except in extreme circumstances and through the ownership of bank accounts.

Either method employed by migrants carries a transferring cost. The cost of remitting ranges from 2 per cent to 10 per cent depending on which part of the world a person is remitting from and to. For example, transfers from the Russian Federation to the Community of Independent States is 2.5 per cent the value of the amount sent, 5.5 per cent from the United States to Latin America and the Caribbean, to South-East Asia and 10 per cent to most African countries from Europe or the United States.<sup>72</sup>

The causes of informality and costs are often related to the infrastructure available to transfer flows to the home country, the regulatory environment in the home country restricting payments only to banking

institutions (for example, excluding MFIs, and small savings banks), the economies of scale of the transfers, the extent of interdependence between the migrant's home and host countries, and the level of private sector competition across corridors.

### C. What Remittances Are Not

Migrants engage in significant economic activities related to their home countries, such as nostalgic trade, philanthropic donations through hometown associations, and investments. These are activities different from remittances and can't be confused as at the moment of policy design, mixing or lumping one activity with another, may have ineffective results.

## IV. REMITTANCES AND DEVELOPMENT: ASSESSING THE RELATIONSHIP

### A. Defining the Relationship

Migrants and their families' financial activities not only impact the economies and the financial systems of their countries, but also demonstrate a capacity to build assets that in turn correlates to remittances. From a policy perspective, remittance flows have an unparalleled effect on poverty reduction and, especially when properly leveraged, on economic development.

The literature on poverty has looked more specifically at the ways in which the poor cope with their reality with regard to wealth accumulation. Moser's analysis of asset accumulation as a differentiated practice from livelihood strategies and social protection is important when thinking about the ways it enables people to have a better quality of life.<sup>73</sup> An asset-based approach to development provides clues about people's capabilities to expand their resources.<sup>74</sup>

Asset accumulation is thus of critical importance and directly intertwined with financial access.<sup>75</sup> Together they provide the means with which to strengthen or enhance a person's material base. Overall, a strong financial basis provides opportunities to build wealth, and thus promote development. Research has shown that lower cash-to-deposit ratios and higher deposit-to-GDP ratios are linked to higher per-capita GDP levels.<sup>76</sup> Such resources are more efficient when made

available for credit and investment in local economies, and are efficiently distributed when such credit is made universally accessible to anyone seeking to expand their capacities.

According to Beck and de la Torre, there are three possible problems with credit access that countries might face: 1) potential borrowers (for non-economic reasons) cannot or do not tap into credit; 2) creditors are not fully exploiting their outreach possibilities and hence are inefficient; and 3) creditors are operating at an unsustainable level where excess credit is being granted. They suggest further that both government and financial institutions have a role to play in addressing these challenges, both separately and collaboratively.<sup>77</sup>

### B. Measuring Development Impact Resulting From Inflows of Remittances

The link of remittances to development has been observed in some areas, such as poverty reduction, economic growth and financial institutional development. At the micro level, within the households, recipients of remittances have been able to build assets. Here we review some of the findings from the literature.

### C. Poverty and Social Effects

Studies have shown that remittances tend to reduce poverty. Richard Adams' (2005) work on remittances and poverty reduction found a statistical relationship between remittance and poverty trends worldwide. His analysis showed that a ten per cent increase in international remittances from each individual will lead to a 3.5 per cent decline in the share of people living in poverty.<sup>78</sup> Adams (2004) study on remittances and poverty in Guatemala based on household survey data found that international remittances reduce the level of poverty by 1.6 per cent and the depth of poverty by 12.6 per cent.<sup>79</sup> Mauricio Orbe's 2006 study found that the Gini coefficient dropped from 0.54 to 0.52 as a result of incorporating remittances into the income equation, indicating that remittances reduce income inequality. In general remittances make recipients wealthier across all income groups.<sup>80</sup>

## D. About the Macroeconomics of Remittances

Few studies in the remittance literature have looked at remittances as one macroeconomic determinant. These studies have argued that remittances as a source of national income have a positive effect on economic growth, capital flows, foreign exchange, and financial activities. The following section will focus on the latter.

## E. Remittances and Financial Activities

The point of departure in remittances and development is their effect on income. Remittances have a direct effect in increasing disposable income which typically turns into saving accumulation. Meaning that out of all income earned, remittances included, savings are set aside and built, and they increase as disposable income increases from the amount of remittance received. Thus, at the level of the household, remittances fulfil the function of contributing to build liquid and fixed assets. In turn the flow of money has an effect over financial institutions. More importantly is that there exist differences among people receiving remittances from non-recipients in their financial practices. In general, remittance senders tend to think and consider investment options and remit for savings or investment in the household. Moreover, recipients tend to have a higher ability to save, invest, and open bank accounts.

In many countries, the per cent of people holding banks accounts is higher among remittance recipients than non-recipients. A similar pattern is found among those who save, where the per cent among recipients is also higher. Empirical evidence shows that those who receive remittances in larger amounts are more likely to have bank accounts, savings and investments.<sup>81</sup> Using national survey data Orozco found that in Guatemala and Nicaragua the per cent of people with bank accounts is higher among those receiving remittances. More importantly it was found that for every additional dollar received, savings increases by at least 30 percent.<sup>82</sup>

Using household survey data for three CIS countries (Georgia, Azerbaijan and the Republic of Moldova) exploring the relationship between finances and

remittances, Orozco showed that remittances are positively and statistically associated to the ownership of a bank account and already existing asset ownership.<sup>83</sup> In Georgia those owning accounts are more likely to express an interest to invest in some asset building activity. Thus, as the extent to which people receive remittances in larger amounts is associated with an interest to build assets, business and policy strategies are prime opportunities to leverage the flows.

## F. Sending for Savings and Sending for Business and Loans<sup>84</sup>

Investment in business and real estate, in particular, and migrant donations to their local communities are unambiguous and concrete forms of financial asset accumulation at the individual and community levels. In the case financial issues we find that between one and two in ten migrants invest in their home country, and nearly three in ten build savings at home. Statistical analysis showed that females remit about 9 per cent less money than do males, that the amount of funds remitted increases by about 5 per cent for each year of age, and that the longer an individual has lived in the United States, the less they remit. However, the longer a person has been remitting the more money they tend to remit.

When examining the relationship between remittance sending and financial obligations, the results demonstrate that when an immigrant has a bank account, it increases the amount remitted by 9 per cent. In addition, individuals who report having a savings account in the home country remit nearly one-quarter more dollars.

The demand for financial services, however, has yet to be met by a supply of these products from financial institutions. This is due to a combination of factors such as misperceptions of behavioural spending among recipients, lack of access to remittance receiving locations, financial literacy and business models geared towards high-income groups. For example, fieldwork research worldwide has shown limited efforts to provide financial intermediation among remittance senders or recipients.

## G. A Case Study: Guatemala and Nicaragua

Here we take a closer look at the case of remittance recipients in Guatemala and Nicaragua who withdraw their money at banking institutions.<sup>85</sup> In both countries over 65 per cent of remittances are paid at bank branches, and some banks seek to offer financial services to recipients more actively than others. BanRural, one of the largest banks in Guatemala has been the leader in paying remittance transfers to families with migrants abroad and also pursued a strategy to offer financial products, savings in particular, to this population. Those receiving remittances through BanRural are predominantly families living in rural areas. In Nicaragua, BanPro, one of the largest banks in the country, has also been a leader in remittance payments and until 2010 started to offer financial products to recipients. Most of its recipients are people living in urban areas. This comparison shows increases in the amounts saved, and people's response of mobilizing their savings when businesses offer financial products.

First, over 70 per cent of remittance recipients from both countries are women and have earnings. Among Guatemalans the main source of remittance transfers was the United States (over 90 per cent), whereas among Nicaraguans it was the United States (50 per cent) and Costa Rica (25 per cent).

Second, the share of remittance dependence varies between the two nationalities. Among rural Guatemalans 75 per cent of total income comes from remittances as opposed to 57 per cent for Nicaraguans. These groups received US\$4,400 and 3800 respectively in a year. Part of the reason for such relates to the extent to which there exist other sources of income for the beneficiary. Two differentiating factors are rural location and gender. The data on Guatemala are collected only in rural areas to predominantly (80 per cent) women recipients. Women in rural Guatemala are much less integrated in the country's labour force than any other group in the country.

Third, nearly half or more among both populations were saving regardless of gender, rural location, age or income. The per cent of Guatemalan remittance recipients saving was higher than those in Nicaragua. Thus, despite that Guatemalans are more remittance dependent, they are still saving. Using data from six countries where financial education has been carried

**Table 5. Receiving remittances and savings**

Per cent/ Amount	Guatemala		Nicaragua	
	Does not save	Save	Does not save	Save
Per cent who saves	27.5	72.5	55.2	44.8
Amount received	Q28,332	Q39,964	C\$49,125	C\$69,594

Source: Orozco, Manuel. Financial literacy projects in Guatemala and Nicaragua, 2010 and 2011.

**Table 6. Remittances received and amounts saved**

Annual amount received	Guatemala	Nicaragua from United States	Nicaragua from Costa Rica
Under 1500	268	509.96	310.95
1500 to 2500	336	729.63	419.65
2501 to 3500	414	570.33	366.45
Over 3500	788	1,099.00	504.05

Source: Orozco, Manuel. Financial literacy projects in Guatemala and Nicaragua, 2010, 2011.

out, Nicaraguans are the group with the lower savings. The reasons are mainly that remittance recipients in Nicaragua have lower incomes, and therefore higher economic needs for basic consumption.

As people receive more remittances, amounts of savings among recipients also increase:

Finally, there is a relationship between savings and account ownership related to financial intermediation. When a financial institution is more proactive in their outreach, the number of people mobilizing their savings and the amount saved increases. Banrural has been active in bringing people into their branches to deposit their savings, whereas Banpro is only recently strategizing these methods. Part of these strategies includes removing barriers to entry. In Nicaragua, one key restriction is that a person wanting to open a bank account needs to provide two personal references with fixed telephone landlines, but in the entire Nicaragua there are less than 150,000 fixed lines.

One important incentive by financial institutions on remittance recipients is financial literacy. When people are provided with tools on how to budget and formally save, behaviour modification changes through a formalization of financial products.<sup>86</sup>

In sum, finance and access to financial resources are cornerstone components of material asset accumulation, which is a key element of economic development. Migrant remittance family transfers directly interplay with financial matters, further highlighting the importance of integrating these flows into formal financial activities.

## V. POLICY TOOLS AND SOLUTIONS TO LEVERAGE FLOWS FOR DEVELOPMENT

Significant challenges such as poor financial access (especially for recipients in rural areas), regulatory environments that restrict participation in money transfers limiting competition, and problems relating to expensive remittance transfer costs persist. As a result, migrants often invest informally and development projects do not have expected impacts. Over all trends, asset building is a key intersecting component between remittances and development. Increases in remittances lead to increases in the stock of savings and other assets, but for the most part are informal. The development policy lies in formalizing assets in ways that they function as development leveraging instruments. The formalization of assets resulting from increases in disposable income as a by-product of growing inflow of remittance in a household brings up questions and options for policy design and implementation in key strategic development fields.

The field experience about migration and development shows that there are a range of tools or policy instruments available to practitioners as the means to bring change. The table below offers a summarized perspective. This section reviews some of the policy options (see table 7).

### A. Product Design

Financial product design is central to the success of financial intermediation for remittance recipients. Its production and distribution depend on three specific components: product and service identification, design

of attributes and properties, and product marketing. Tailoring and marketing products that meet the needs of migrants and households receiving remittances is central to an effective strategy that operationalizes the leveraging of remittances for development.

Policymakers must know their target market before designing financial services interventions. Moreover, lessons learned from previous worldwide experiences should be considered when designing new products. Identifying the product to be offered also involves careful selection of the partners to be involved which can include collaboration among financial institutions, government agencies and civil society to develop access to the target population, and collaboration with remittance service providers.

### B. Financial Education

Financial education has proven to be an efficient tool to effectively build assets in a society.<sup>87</sup> People who receive appropriate tools that introduce principles and concepts on budgeting and savings, and who are also paid to advertise how to formalize their savings at trusted financial institutions, improve their condition. Financial education will improve the usability and openness of financial products among remittance recipients. Low levels of financial literacy reflect many people's struggle to strike the right balance between income and expenditure, a necessary first step to build assets and attain financial independence. Designing a financial literacy intervention requires selecting the vehicle, methodology, content, audience and expected results of the programme.

### C. Regulations

Regulations governing money transfers guarantee the movement of funds through a licensed mechanism. Regulation can have an important impact on the cost of sending and especially on the geographic distribution of remittance payout locations. For example, some countries' regulatory environments restrict participation in money transfers for entities such as microfinance institutions, which tend to have a good rural presence where banks and remittance payouts are limited. Regulations can also limit competition in the marketplace, which creates high costs of sending. In most developing countries where nationwide banking penetration is relatively minimal, access to payments or other financial services is highly restricted

**Table 7. Policy instruments on remittances and development**

Policy instruments	Objective	Methods
Technical assistance	Strengthen institutions and address a particular policy need	Financial product design, research, training, project formulation and evaluation
Communication and outreach	Engage a policy community (diasporas)	Workshops, policy dialogues, visits, meetings
Funding facility	Provide material resources to achieve a concrete outcome	Loan, grant and investment schemes
Partnerships	Collaborate with stakeholders on mutual grounds	Cooperative agreements between governments, diasporas, NGOs, financial institutions or other foreign governments
Regulation	Enforce norms to benefit the public good	Legal review and reform
Education	Form needed skills among remittance senders and recipients	Financial education

and enjoyed only by a minority of the society. Legal reform such as outlaw exclusivity agreements could help strengthen access to remittances and financial inclusion.

## D. Technological Innovation

Technology applications in development finance are increasingly proving their validity as vehicles that ensure financial access and asset building. Businesses and policymakers have found an important link between remittances and various forms of technologies as the means by which people can increase their lot with their finances. A host of new remittance transfer methods have been developed in recent years, such as mobile phone transfers, card-based transfers, and Internet transfers.

Current technologies such as card-based, Internet and

mobile payment systems offer at least four advantages to the remittance and financial industries: functionality, innovated value-added competencies, business and development impact, and cost effectiveness.

These technologies all require infrastructure to enable the successful use of these technologies by end users. Ensuring a deep and accessible payment network that enables remittance recipients to use the money on their card, in their account, or on their mobile phone is essential to the success of any technology-based model. The international donor community has expressed interest in working on modernizing payment systems adopting and adapting new technologies. Governments can support the tax exemptions for importing POS devices and explore the regulatory environment that can permit international foreign currency transfers in a mobile device account associated with a bank.

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## 2. THE VITAL ROLE OF INFORMATION IN ENHANCING TRANSPARENCY AND EFFICIENCY IN REMITTANCES

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### I. INTRODUCTION

Access to reliable and accurate data is taken for granted in many industries and disciplines. However, this is not the case in the remittances industry. There are challenges in the areas of gathering macro level data, which has an impact on the ability to make informed policy decisions to fully harness the development potential of remittances. In addition, and of equal importance, is the lack of transparency that the user of remittances experiences in trying to make their transactions. This article focuses, after an initial exploration of policy implications, mainly on the impact that lack of transparency has on consumers and presents examples on some of the solutions that have been introduced in a number of countries to improve access to information. Where available, results from these initiatives are included.

### II. ACCESS TO ACCURATE INFORMATION ON REMITTANCES IS VITAL FOR POLICYMAKERS

Remittances as a phenomenon have attracted significant attention over the last decade or so. Yet there is still a lack of quality and consistent data around the world on many of the fundamental indicators for remittances. For a policymaker it is vital that they understand such relatively basic measures as:

#### Quantitative

- The size of flows into or from a country
- Which countries does the money come from and how much comes from each country
- Which countries does the money go to and how much goes to each country

- What are the costs that are associated with each remittance
- How much money is moved through informal means

#### Qualitative

- What is the money that is received used for
- Which methods are used to move money
- What are the factors that inhibit the efficient operation of the remittance market.

There are many other areas where detailed information would be helpful to policymakers but currently it is clear that access to the quantitative measures list above would be extremely helpful to policymakers. The quality of information is extremely variable and inconsistent. An example would be in the case of Ghana where the World Bank estimates that remittances to the country were \$114 million<sup>88</sup> in 2009, whilst the Bank of Ghana in a separate estimate puts the number at \$1.9 billion.<sup>89</sup>

It is not the purpose of this paper to go into the reasons for the lack of available data. The World Bank has a work stream under the Global Remittances Working Group to develop enhancements in this area but undoubtedly remittances are often categorized and recorded in different areas of a country's Balance of Payment reports. In many countries data are simply not captured. There are, however, a number of examples where good quality data are captured. An example of this would be the Russian Federation where the Central Bank of Russia publishes, on a quarterly basis, the volumes of remittances sent into and out of the country. These data include where the money is sent to or received from.<sup>90</sup> Further examples would be the State Bank of Pakistan and Bangladesh Bank.

Without access to the types of information detailed above it is challenging for policymakers to make decisions that will help both the senders and receivers of remittances directly but also to introduce policies that will harness the financial power of these flows. If regulators are able to understand which methods are used by remitters, in particular how much money flows informally<sup>91</sup> and the respective costs, they may be able to introduce policies that will encourage consumers to transfer money by other means – the Pakistan Remittances Initiative (PRI) is a good example of this (see box 4).

### III. ACCURATE INFORMATION FOR CONSUMERS IS VITAL

If information for policy makes is important then it is critical for consumers. For remitters sending money home to their family is the most important, the largest and the most regular payment that they make. Many remitters are sending home up to a third of their income on a regular basis.

They frequently have a limited range of choices and within those choices there is a limited range of information available to them to make the best decision that meets their individual circumstances.

It is, therefore, not surprising the General Principles on Remittances<sup>92</sup> has Transparency as the first of the five principles. Key elements of this principle state:

‘Transparency in Remittance services, combined with adequate consumer protection helps to foster a competitive and safe market for remittances.’

‘It is useful for senders (and receivers) to be able to have full information about the service in advance’

- ‘Particularly relevant is transparency about the total price and speed of the service’.<sup>93</sup>
- ‘At the moment the market for remittances is not always fully transparent’.
- ‘Even if individual Remittance Service Provider (RSPs)<sup>94</sup> are fully transparent it may not be easy for end users to compare the price of different services’.

It is vital that consumers have full information about the service that they are buying before they complete the transaction. There are some good examples of transparency in the remittances market place and the majority of operators are fully transparent but in many markets it is still not easy for consumers to compare the different operators’ prices and product features. The following sections will highlight some existing initiatives that aim to improve transparency.

#### Box 4. Pakistan Remittances Initiative

In late 2009, the Government of Pakistan put in place an incentive scheme for the remitters and beneficiaries whereby the Central Bank reimburses USD 6.50 per transaction to the banks in Pakistan provided that the remitter and the beneficiary should not be charged any remittance fee. The distribution bank and the foreign entity share the reimbursement amount as per their mutually agreed terms.

The aim of the scheme was to attract more transactions to enter Pakistan through the formal financial system because Pakistan is a country where informal service operators account for significant volumes of transactions.

Since the service began Pakistan has been the fastest growing receiving market and total transaction volumes have increased from USD 8.7 billion for the fiscal year to June 2009 to a projection in excess of USD11 billion for the 12 months to June 2011. This would represent an increase of over 23 per cent for the latest fiscal year.

In a short space of time the service has proved to be remarkably successful in terms of generating increased transactions through the formal sector although clearly there is a price to be paid by the government to fund the scheme.

Source: N Bhurgri (2010). Salient Features & Benefits of PRI Scheme

## IV. REMITTANCE CUSTOMER CHARTER

In early 2008 the United Kingdom Remittances Task Force (UKRTF)<sup>95</sup> developed and issued a customer charter. This document, presented below, was introduced following consumer research and was directly prompted by the publication of the General Principles of Remittances.

The aim of the Charter was to provide a tangible commitment to consumers by the money transfer industry so that where remitters see the Charter symbol they know that they will receive a certain minimum level of service and transparency. This was an industry driven initiative which had the support of government.

The Charter provides consumers with a written explanation of the information that they will be provided with prior to agreeing to undertake a transaction. This includes information on the fee and foreign exchange rates that will be provided, how long it will take for the money to arrive, what the receiver has to do to collect the money and how to make a complaint if something goes wrong.

It then goes on to describe what the customer will receive in writing after the completion of the transaction. This covers the items that have been provided before the transaction was completed as well as providing a unique transaction reference number and the amount that will be collected in the currency of the receiver.

The specific terms of the charter were prompted by the (proposed<sup>96</sup>) consumer protection elements of the Payments Services Directive (a pan-EEA piece of legislation). In a sense, therefore, the Charter was introduced in anticipation of a regulatory change (See picture 1).

Agreeing on the terms that were eventually included in the charter proved to be a long process. In particular the banks, who are not the main senders of remittances from the United Kingdom, were reluctant to commit to a number of the clauses, especially those concerning foreign exchange rates. Ultimately agreement was reached although the conditions were somewhat diluted in comparison to the terms contained in the original draft.

The charter was translated into eight different languages to cover the majority of the Diaspora communities in the United Kingdom that transfer money home.

Adoption of the charter is voluntary and the process is currently policed on a self-certification basis. This means that oversight is limited. However, each company that wishes to join the charter scheme must be registered or authorised by the Financial Services Authority (to ensure that they are operating legally). The overseer of the charter scheme monitors complaints received from the public to monitor compliance with the terms and conditions.

The United Kingdom has around 35,000 locations that offer remittance services and since its launch over 50 per cent of the money transfer outlets in the United Kingdom have signed up for the charter.<sup>97</sup> Providers that have signed up to the Charter include some of the largest operators, such as MoneyGram, Coinstar and Ria Envia, as well as small individual operators. Due to the voluntary nature of the scheme there is one large company that decided not to join the scheme and all of the banks opted out. However, the absence of the banks has not hindered the effectiveness of the Charter as the market share of the main banks in the remittances market is minimal.

### Key lessons

- Engage with consumer groups during the design process for a charter
- Develop wording that meets the needs of the consumer
- Ensure the contents of the charter are relevant, deliverable and written in an easy to understand way
- Obtain the buy-in of the providers at as early a stage as possible
- Self-certification, whilst economically viable, is not the most suitable method for achieving consistency of compliance across all operators
- Publicising the existence of the charter is extremely important.

At the current time this appears to be the only Customer Charter Scheme that exists in the global market but there is no reason why a similar scheme should not be introduced.

It should also be noted that the Payments Services Directive (PSD)<sup>98</sup> came into law after the Charter had been introduced and therefore the clauses in the Charter are now a legal requirement for all operators throughout the European Economic Area who are transferring money from one EEA country to another.

Picture 1. United Kingdom Remittances Customer Charter

# Remittances Customer Charter

## Our commitment to you when you send money abroad

Any money transfer company that displays this Charter agrees to meet the following standards when sending money abroad for individuals.

*Our commitment to you, the customer, is:*

### **Before agreeing to undertake a transaction we will provide you with the following information:**

- The total fee that you, the sender, will be charged by us for the transaction. If we believe that the person to whom you send the money may also have to pay a fee, then we will tell you
- The exchange rate that we will apply to your transaction
- If a further exchange rate may be applied we will tell you to expect this
- Information on where the receiver should collect the money from and what steps they have to take to collect it
- An indication of when the funds will be available at the organisation to which you are sending the money
- Information on cancellation or complaints procedures and any charges for cancelling or amending a transaction

### **Upon completion of a transaction we will provide you with the following in writing:**

- A transaction reference number that is unique to your payment
- Confirmation of the date on which we received your instruction and the exact amount we are sending for you in the currency specified in your instruction
- The fees that you have paid to us for this service
- The estimated amount that the receiver will collect in the currency that the money will be paid/credited
- The exchange rate that has been applied to your transaction where this is available. Where this is not available or where additional rates will be used we will tell you how the foreign exchange conversion will be calculated
- Information on where the receiver can collect it or confirmation of the bank to which the money has been sent
- When the money will be available for the receiver and whether this timescale is definite or the best estimate that we can make
- In the case of cash collections, what the receiver has to do in order to collect the money
- The procedure to follow if you wish to make a complaint about this transaction, together with an indication of how long it will take us to provide an answer

### **Should you have any queries concerning this charter please contact:**

**Seymour Fortescue, World Bank Adviser on Remittances,  
Campden Gate, Angel Lane, Broad Campden  
Gloucestershire, GL55 6US**



Source: Remittances Customer Charter

It is therefore difficult to determine the full impact of the Charter. Nonetheless, its existence is still considered valid as a marketing tool to provide confidence to consumers.

## V. PRICE COMPARISON WEBSITES

Another tool that promotes transparency and provides valuable data is a remittance price comparison site or database. This section outlines the benefits of well-run price comparison sites and provides a detailed example of one of these.

Whilst these can be a valuable tool as they are easily accessible via the internet it needs to be emphasised that they are only part of wide customer communication to remitters as many of them do not have access to the internet and so cannot view the information in that format. The actual information in the database can be distributed in a number of formats including by leaflets or via SMS messaging.

## VI. BENEFITS

### For Consumers:

- Makes it much easier to shop around and compare the service offerings of different providers

### For Regulators, Governments and Development Bodies:

- Can help to bring more transparency to the market place
- Can lead to a reduction in prices. Often, simply the act of publishing directly comparable pricing data can lead to some RSPs cutting their prices so as to appear more competitive.
- Can be used as a tool for assisting with financial literacy for consumers
- Can assist with encouraging more consumers to use the formal channels. Highlights the fact that prices through formal channels may be lower than previously understood by consumers. One of the key reasons for using informal channels is that they are often perceived to be cheaper than

formal channels; the publication of information that contradicts this impression can be a useful tool in meeting this challenge.

### For the Private Sector:

- It helps to demonstrate the competitive advantage of a particular service provider. This may be shown through having the cheapest price, the widest network, the fastest service etc.
- In some countries that have such price comparison websites, an increasing number of providers are using this online platform to notify the public of new offers and network expansions etc., recognising the key role they can play as a contact point with existing and potential customers.

## VII. THE SITUATION TODAY

A growing number of countries are currently offering remittance price databases and these are listed below. Many of these began operations more than two years ago and were established independently of each other. Therefore the methodologies and approaches that were used were different with some being more consumer focused and transparent than others. For example, some of the sites do not collect or show foreign exchange rates and therefore the transparency value of the site is more limited. In order to ensure a more consistent and customer focused approach, the World Bank through the Global Remittances Working Group has developed some guidelines for remittance price databases and has also introduced a certification structure for sites that meet these guidelines. World Bank approved sites are able to display a certification logo (see box 5).

There are currently three sites that meet the criteria: Australia and New Zealand, Italy and Central America. It is anticipated that more countries will introduce their own sites and that all new sites will be compliant with the global standards (see table 8).

It is useful to illustrate how these sites operate by taking the example of [www.sendmoneypacific.org](http://www.sendmoneypacific.org). The site was started in 2009 at the initiative of the Australian and New Zealand Governments. They wished to implement a tool that could be used as a focal point of activities to reduce the cost of remittances from these countries to eight Pacific Island nations. The flows were some of the most expensive in the world

**Box 5. World Bank Requirements for national remittance price databases<sup>99</sup>**

- Data should be gathered for a minimum of two price points
- The fee(s) charged on the sending side should be collected
- The exchange rate applied should be registered
- The total cost of the transaction should be clearly displayed
- Time necessary for the money to be available should be notified
- The type of service (e.g. credit to bank account, cash collection) should be notified
- The RSPs surveyed should, in total, cover at least 60 per cent of the market for a particular corridor.
- The data must be gathered by an institution, company or entity totally independent from the market industry (RSPs), with a transparent methodology designed to avoid any possible conflict of interest
- A mystery shopping process (either by phone or in person) should be used, where necessary and appropriate.
- No advertising should be allowed by any of the organisations listed on the database
- Companies listed on the database should not pay to be on the database
- Links to other approved price comparison databases should be established.

Optional elements include:

- Regularity with which data is gathered – monthly or bi-weekly
- Number of locations in the sending and/or in the receiving country
- Foreign exchange margin
- Information on the total amount of money that the receiver is supposed to obtain at the completion of the transaction should be available
- Interbank exchange rate or the most common exchange rate applied in a given country at the time of undertaking the survey
- Additional amounts as price points.



and remittances to receiving countries such as Samoa and Tonga make up a significant portion of their GDP. Therefore any activities that could help lead to a reduction in price were to be widely welcomed.

Funding for the site comes from the development arms of the Australian and New Zealand Governments and the design, maintenance and data collection were outsourced to a private sector consultancy (Developing Markets Associates Limited).

The site consists of a number of separate areas. The focal point of the site is the 'Compare costs' section which contains the data for sending money from Australia or New Zealand to one of the Pacific Islands. Data are collected for two price points (\$200

and \$500). These data are collected on a monthly basis and is obtained by mystery shopping the main operators for each country. This method is used in order to ensure that the data contains a picture that is as representative of the true consumer experience as possible. The 'Compare costs' page shows information on:

- The operator
- The method of transfer
- The fee charged
- The exchange rate
- The total cost to the consumer
- How much is received in the receiver's currency
- How long it takes to arrive; and,
- Where it is available

Table 8. List of remittance price comparison sites

Sending country	Website address	Comments
Australia	www.sendmoneypacific.org	Has World Bank approval
France	www.envoidargent.fr	Does not collect FX rates
Germany	www.geldtransfair.de	Does not collect FX rates
Italy	http://www.mandasoldiacasa.it	Has World Bank approval
Netherlands	www.geldnaarhuis.nl	Collects FX rates but does not calculate the cost to the customer
New Zealand	www.sendmoneypacific.org	Has World Bank approval
United Kingdom	www.moneymove.org	Collects FX rates and calculates the cost to the customer
Central America	www.enviacentroamerica.org	Has World Bank approval. Is the only site that is run by a receive area – it is managed by CEMLA and covers six receive markets
Worldwide	Remittanceprices.worldbank.org	World Bank price database covering two hundred corridors that is updated twice a year

It is possible for the person viewing the site to sort the data by any of these variables depending on what their requirements are.

The site (see picture 2) is much more than purely a price comparison tool. It is a vital information source for the diaspora communities in the host countries and is used by governments and community groups alike to provide information for the community. For instance, picture 3 shows one of the pages in the community information section for Samoa. The site has been used to display information ranging from the times of church services to news from Samoa.

In New Zealand a section of the site is also used for financial education activities. These include specific details on certain financial products that are available to the migrant groups in the country.

Ultimately the site or database is primarily a tool that contains data that can then be used for a variety of purposes. It can also be used as a catalyst for other outreach and community activities. Picture 4 shows how the information has been turned into a leaflet (produced in English and in some instances diaspora languages), which also contains financial literacy information. This was then distributed at markets and specific events for the diaspora.

## VIII. RESULTS

In relative terms, consumer price databases are a relatively new innovation and there is limited research on their effectiveness. It is not possible to isolate the impact that the introduction of one of these databases has

Picture 2. Screen shot of 'Compare costs page' on SendMoneyPacific

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## SendMoneyPacific

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All the information you need to send your money to the Pacific

Compare Costs for sending AUD 200 from Australia to Fiji last updated on 04 Feb 2011 (includes all known costs – please hover over the Total cost column for operator FX rate and FX margin)

New Search from  to  amount

Operator	Method of Transfer	Fee (AUD)	Total Cost (AUD)	Total Cost (%)	Fiji Dollar (FJD)s Received for Initial AUD200	Speed of Transfer	Outlets	Compare
Coinstar	C	10.00	16.58	8.29%	336.30	One hour or less	Fijian agent and bank branches	<input type="checkbox"/>
MoneyGram	C	12.00	18.83	9.42%	332.33	One hour or less	www.moneygram.com	<input type="checkbox"/>
Xpress Money	C	12.00	20.77	10.38%	329.00	One hour or less	2 agents in Suva	<input type="checkbox"/>
IMEX Money Transfer	C	15.00	23.77	11.88%	323.75	same day	Fijian agent and bank branches	<input type="checkbox"/>
HSBC (online)	O	20.00	24.24	12.12%	322.45	1-3 business days	Fijian bank account	<input type="checkbox"/>
Suncorp (online)	O	20.00	27.22	13.61%	317.56	2-5 business days	Fijian bank account	<input type="checkbox"/>
St. George Bank (online)	O	20.00	28.72	14.36%	315.07	2-5 business days	Fijian bank account	<input type="checkbox"/>
HSBC	A-A	25.00	29.24	14.62%	313.50	2-5 business days	Fijian bank account	<input type="checkbox"/>
Westpac (online)	O	20.00	30.04	15.02%	312.91	1-3 business days	Fijian bank account	<input type="checkbox"/>
Citibank	A-A	25.00	31.29	15.64%	310.22	1-3 business days	Fijian bank account	<input type="checkbox"/>
ANZ (online)	O	24.00	32.12	16.06%	309.04	2-5 business days	Fijian bank account	<input type="checkbox"/>
Commonwealth Bank (online)	O	22.00	32.77	16.38%	308.24	2-5 business days	Fijian bank account	<input type="checkbox"/>

compared to other initiatives that have been aimed at reducing prices. However, analysis has been undertaken in three cases to compare the change in pricing between the launch of a database and the current time.

### A. The United Kingdom

A website ([www.sendmoneyhome.org](http://www.sendmoneyhome.org)) was started by the Department for International Development in 2005. Although this site no longer offers objective pricing for remittance services another site, [www.moneymove.org](http://www.moneymove.org), does. Between 2005 and 2010 the total prices to consumers have fallen by 49.7 per cent across the six key markets that were originally measured.<sup>100</sup>

### B. New Zealand

The [www.sendmoneypacific.org](http://www.sendmoneypacific.org) site was launched in March 2009 and after 2 years, prices had fallen by 19.78 per cent since their launch.

### C. Australia

The [www.sendmoneypacific.org](http://www.sendmoneypacific.org) site was launched in March 2009 and after 2 years, prices had fallen by 10.84 per cent since their launch.

In the cases of Australia and New Zealand there were very few other activities at the time and therefore a high proportion of the reduction cannot be attributed to factors other than the existence and promotion of [www.sendmoneypacific.org](http://www.sendmoneypacific.org).



Picture 3. Pacific communities page

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## SendMoneyPacific

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### The Samoa Community in Australia

[BACK TO TABLE](#)

**Diplomatic missions in Australia:**

**High Commission of Samoa:**

High Commissioners: His Excellency Leiataua Dr Kilifoti S Eteuati

13 Culgoa Circuit  
O'Malley ACT 2606

Tel: (02) 6286 5505  
Fax: (02) 6286 5678  
Email : samoahcauzzi@netspeed.com.au

**Consulate of Samoa, New South Wales:**

Honorary Consul: Mr John Mitchell

Suite 34, Level 7 88 Pitt Street  
Sydney NSW 2000

Tel: (02) 9221 0410, 0414 976 100  
Fax: (02) 9221 0499  
Email : jaymitch2@bigpond.com

**Consulate of Samoa, Queensland:**

© Drakes

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Picture 4. Community based leaflet

Total costs for sending NZD \$200 from NZ to Samoa on 15 Feb 2010 For updated info visit [www.sendmoneypacific.org](http://www.sendmoneypacific.org)

Operator	Fee (NZD)	Total cost (NZD)	Samoa Tala received for initial NZD200	Speed of transfer
Westpac Prepaid Cards**	1.00	5.98	347.49	Less than 1 hour
Pacific Ezy money transfer	5.00	9.46	341.25	Same day
Zsaina International	5.00	11.63	337.35	Less than 1 hour
Imex Money Transfer	10.00	13.28	334.40	Same day
Westpac Prepaid Cards*	9.00	13.78	333.52	Less than 1 hour
Samoa Money Transfer Ltd	10.00	15.40	330.60	Same day
Samoa Finance Money Transfer	10.00	15.40	330.60	Less than 1 hour
Xpresstrac Money Transfer	10.00	17.52	326.80	Same day
MoneyGram	12.00	21.22	320.19	Less than 1 hour
World Cash Transfers	12.00	22.59	317.72	Less than 1 hour
Western Union	14.00	25.92	311.76	Less than 1 hour
Westpac	25.00	31.63	301.54	2-3 business days
National Bank NZ	25.00	32.90	299.27	2-3 business days
ANZ	25.00	35.88	293.93	1-3 business days
ASB (Fastnet Classic)	20.00	37.31	291.37	2-3 business days
Kiwibank (internet)	20.00	40.38	285.87	2-3 business days
BNZ	25.00	41.58	283.73	1-3 business days
ASB Bank	25.00	41.83	283.27	2-3 business days
TSB	25.00	44.22	278.99	2-3 business days
Kiwibank	25.00	44.81	277.93	2-3 business days

\*Westpac Prepaid Cards (Fee inc card load & withdrawal cost from Global Alliance ATM)

\*\*Westpac Prepaid Cards (Fee inc card load & withdrawal cost of NZD8 from a non Global Alliance ATM)

Notes: (1) The total cost is the amount you pay including the fee and foreign exchange cost and any costs that are charged to the receiver. (2) The amount received is the amount received in the relevant Pacific currency after taking off all costs.



## IX. KEY LESSONS

- Compliance with the global standards on price databases ensures that there is true transparency
- The databases are one component of a larger strategy
- The production of databases has had a positive impact on remittance price reductions
- Nearly all of the initiatives have been funded by the public sector and a business case for running these databases on a commercially viable basis has yet to be developed in the remittances space
- The production of a database is a visible sign that governments are committed to making a difference in the remittances space.

## X. POLICY RECOMMENDATIONS

The following policy recommendations should be considered:

- (a) Actions should be taken to ensure the more accurate development of data on remittances. These should include measures to capture both quantitative and qualitative data.
- (b) Policy makers should introduce all measures possible that enhance transparency. These may include:

- (i) Working on the development of a remittance customer charter. This should be a collaborative process between the public sector, the private sector and remitters.
- (ii) The development of a remittances price database. This should be constructed in compliance with the World Bank requirements and should be relevant to the key corridors that are present in the country involved.
- (iii) Using remittance price databases as a key component in a broader initiative around financial inclusion and consumer education.

## XI. CONCLUSIONS

Obtaining better quality, broader and deeper information is vital for all stakeholders. Policy makers need it in order to achieve a greater understanding of the whole remittances market so that it can inform appropriate policies. Consumers need it so that they can make the most informed choices and select the remittances product that meets their needs.

By providing this information the private sector benefits as a whole because it helps to build up trust in the industry. Individually the private sector entities benefit as this allows them to demonstrate the competitive elements of their customer proposition.

There are a number of simple tools that can be used to produce greater transparency and these include

Customer Charters and remittance price databases.

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## 3. REMITTANCES AND FINANCIAL INCLUSION: THE ROLE OF THE UNIVERSAL POSTAL UNION (UPU)

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### I. INTRODUCTION

Established in 1874, the Universal Postal Union (UPU) is the principal forum for cooperation between governments, Posts and other postal sector stakeholders. A specialized agency of the United Nations since 1948, the UPU now has 191 member countries. The UPU international postal money order (MO) network was created in 1878, when the first intergovernmental treaty on international postal MOs was signed by the organization's member countries.

### II. POSTAL PAYMENT SERVICES (REMITTANCES)

As a United Nations specialized agency, the UPU is a key player in efforts to implement the Millennium Development Goals set out in United Nations General Assembly resolutions A/RES/59/220 (2004) and A/RES/60/1 (2005). These resolutions are aimed at reducing poverty and the digital divide, and reaffirm the need to adopt policies and take measures to reduce the cost of transferring migrant workers' remittances to developing countries; they reinforce the efforts of governments and stakeholders in this regard.

Over the past 10 years, the UPU has been transforming the traditional international paper and telegraph-based postal payment network into a worldwide electronic payment network equipped with state-of-the-art technologies for the exchange of electronic postal payments between postal operators. Consequently, the development and modernization of this market segment in support of the development and promotion of a worldwide electronic postal payment network have become key strategies of postal operators worldwide, and represent priority activities on the UPU's agenda.

The objectives of the UPU are as follows:

- make the postal payment services offered through the electronic network affordable, secure and accessible to all citizens of all UPU member countries;
- contribute to the development of account-based financial services and make them accessible to all citizens of UPU member countries;
- offer all member countries the opportunity to modernize postal payment services and increase access to those services as well as improving their quality;
- apply the international regulations designed to combat money laundering and the financing of terrorism;
- help to achieve the Millennium Development Goals and to combat poverty.

Facilitating the transfer of remittances between migrant workers and their families has become one of the UPU's biggest priorities. The costs associated with international money transfers remain high, with charges of up to 20 per cent levied on transactions in some cases (World Bank, 2011). With an average sum of 200 USD being transferred, it is important for the people sending these sums to benefit from the best possible conditions. The UPU is offering a solution based on its member countries' wealth of experience in this area and the strength of its network. The organization is also convinced that access to secure, affordable postal payment services via the electronic postal network will help discourage the emergence of parallel networks, which can lead to money laundering and the financing of terrorist activities. Priority is being given to helping developing countries develop their capability to offer electronic money transfers in all post offices, including those in rural zones.

### III. THE UPU REMITTANCES SOLUTION

#### A. A Multilateral Framework

Since 1878, the UPU has developed principles for the exchange of international postal MOs, which are now enshrined in an international treaty: the Postal Payment Services Agreement and its Regulations. These provisions enable exchanges through the UPU's worldwide electronic postal payment network. Among its key elements are interoperability, transparency and customer protection, as well as safeguards against money laundering and the financing of terrorism.

#### B. International Financial System

The UPU has created a network and family of software applications, collectively referred to as IFS, the International Financial System.<sup>101</sup> The UPU has a specialized Postal Technology Centre which manages a secure and legally protected electronic network and a family of software for electronic data interchange (EDI) and processing of postal payment information between postal operators.

In order to develop the worldwide electronic payment network, the UPU continuously strives to guarantee, under the terms of the Postal Payment Services Agreement and on a non-exclusive basis, the neutrality of the organization as regards the technological choices to be made with a view to facilitating and maintaining the interoperability and interconnection of the UPU's networks and systems with other networks and any strategic partnerships.

Software and networks are the joint property of all UPU members, and development costs are shared among all. The aim of the UPU is to offer high quality international postal payment services at the lowest possible charges. The installation and use of IFS for electronic postal payments allows postal operators to reduce by up to 50 per cent the tariffs to be paid by customers. This is influencing the international remittance market to the extent that other remittance operators are also reducing their tariffs.

The know-how and expertise of the UPU in building the worldwide electronic postal payment network take into account the following parameters:

The UPU is the keeper of treaty obligations and regulations and is the ideal focal point for creating and managing a multilateral agreement for the worldwide electronic postal payment network.

The information sent through the UPU network is fully secured and is confidential. The interests of the users, both senders and beneficiaries, are fully protected.

- The UPU has developed a quality control system (QCS), which forms an integral part of the system. The QCS includes a global website for accessing statistics and performance and quality measurement reports. It also has a track and trace capability.
- All types of transactions can be processed (cash-cash, cash-account, account-cash, account-account). For each type of transaction, the system can support two different speeds of processing, according to the service guarantee offered by the postal operators to their customers. Postal operators are being encouraged to help customers direct funds received into savings and more productive investments, including the development of microfinance.
- The UPU systems also come with a complete domestic and international accounting module. In addition, a comprehensive set of reports is available.
- The UPU operates a 24-hour, five-day-a-week helpdesk, along with a professional service team with a regional presence.
- The UPU is developing best practices intended to help the postal operators promote the service to all citizens and small and medium-sized enterprises.

#### C. Clearing and Settlement

Within the UPU multilateral framework, ensuring secure transfers and payments as well as settlements between designated operators is a top priority. New rules to ensure the sound functioning of financial relationships between postal operators have been defined in the UPU Acts. Based on these rules, a system to automate clearing and settlement of accounts between operators on the network is currently being finalized (start of production planned for January 2012).

## IV. ONE EXAMPLE OF UPU SUPPORT TO DEVELOPING COUNTRIES

Posts have the world's largest physical network, with a total of 660,000 post offices (UPU 2009). According to a World Bank (2006) study, there are almost twice as many post offices and postal agencies (500,000) as commercial bank branches (275,000) in the developing world.

In Sub-Saharan Africa, there are currently 14,412 post offices (UPU 2008), compared with about 10,000 bank branches.<sup>102</sup> A UPU study (Ansón and Toledano 2008) showed that only 19 per cent of post offices were located in the three biggest cities, leaving more than 80 per cent of post offices in the region's many small and medium-sized towns and rural areas, where 82.5 per cent of the population lives. In contrast, banks focus on cities with denser populations believed to be more interested in financial services.

The experience of Brazil's Banco Postal shows that focusing on rural areas and small and medium-sized towns, where formal banking has been unavailable, can be a winning strategy for Posts. At the start of the Banco Postal project, between 2002 and 2006, agencies were established primarily in these locations. This approach proved successful in terms of profits, and also benefited the more traditional postal business with a 100 per cent increase in foot traffic in rural post offices where Banco Postal services were available (PlaNNet Finance 2010). Banco Postal had a tremendous impact in terms of financial inclusion (Ansón and Bosch Gual 2008): half of the total savings of Banco Postal were held in 50 per cent of the poorest municipalities, which accounted for less than 30 per cent of the population. Also, 25 per cent of Banco Postal's loans and microloans were granted in 20 per cent of the poorest municipalities, where only 10 per cent of the population lived. This means that savings collections in these communities have been redirected through small loans in favour of local economic development.

The UPU is currently experimenting with a similar approach in western, eastern, and central Africa. Since 2006, the UPU, with the support of the French Post, has helped 20 sub-Saharan countries develop money transfer services. Because of limited financial resources, postal operators in these African countries initially focused on larger cities where more business

was expected. This, however, had mixed results, as the services offered faced competition from both external and internal sources. Clients in urban areas have many options for transferring money. First, in larger cities, the total number of bank branches exceeds the number of post offices. Furthermore, money transfer companies have pre-existing relationships not only with banks but also with a wide array of shops and small businesses. Meanwhile, most Posts in sub-Saharan Africa have signed agreements with various money transfer partners. Some of them require Posts to sign exclusivity arrangements. "These agreements effectively 'lock' more than half of all available payout locations" (IFAD, 2009). They cover post offices in locations such as small towns and rural areas, even though these partners are much less likely to deploy the service there. This situation limits competition, keeps prices artificially high, and results in Posts not being able to develop their own electronic MO service. Advocacy efforts are being led by various international organisations to ensure that such exclusivity arrangements are banned.

To address these issues, the UPU partnered with the French Post and the International Fund for Agricultural Development (IFAD) to launch a pilot programme in six West African countries (Benin, Burkina Faso, Mali, Mauritania, Niger and Senegal). The programme's objective was to develop a postal money transfer service, called MEI,<sup>103</sup> in the rural areas and smaller towns of these countries. The six countries have a total of 510 post offices, 404 (79 per cent) of which are located in rural areas.<sup>104</sup> In 2009 the project connected 355 rural post offices, either directly by Internet connection (when available), or through the establishment of call centres and the use of phones or faxes. Under the programme, MOs can be paid within two days, and much more quickly (in a few minutes) if both the sending and the paying post offices were online. Within the framework of the project, procedures were also set up to facilitate cash management, and a number of joint marketing activities were conducted among the six participating countries and the French Post. The pricing of the services is listed in tables 9A and 9B.

Rural post offices have started issuing and receiving MOs. Furthermore, Gabon, which attracts a number of West African immigrants, is acting as a development engine within the region, issuing a significant number of MOs to France, the pilot countries, and other African countries (most notably Cameroon and Togo).<sup>105</sup>

**Table 9. Pricing of remittance services – Pilot programme in West Africa**

<b>Table 9A. France to sub-Saharan Africa</b>		
<b>Range in EUR (as of December 2009)</b>	<b>Cost in EUR</b>	<b>Cost as % at maximum of the range</b>
0–100	8	8
100.01–200	12	6
200.01–300	15	5
300.01–750	20.5	3
750.01–1,500	27	2
More than 1,500	35	n.a.

**Table 9B. Between sub-Saharan African countries**

<b>Range in EUR (as of August 2010)</b>	<b>Cost in EUR</b>	<b>Cost as % at maximum of the range</b>	<b>Cost as % of annual per capita income in Niger<sup>106</sup></b>	<b>Cost as % of annual per capita income in Senegal</b>
0–152	6	4.01	2.41	0.81
152–305	9	3.00	3.62	1.21
305–457	12	2.67	4.82	1.62
457–610	15	2.50	6.03	2.02
610–762	18	2.40	7.23	2.42
762–915	21	2.33	8.44	2.83
915–1,067	24	2.29	9.64	3.23
1,067–1,220	27	2.25	10.85	3.63
1,220–1,372	30	2.22	12.06	4.04

Source: UPU, 2009.  
n.a. = not applicable.

This shows that an operator that has sufficiently developed its capacities and has good leadership and governance capability can seize remittance development opportunities.

In Burkina Faso, we used data from 2009<sup>107</sup> and separated the issue and payment of international MOs between the two biggest cities, Ouagadougou and Bobo-Dioulasso (urban), and the rest of the country (which for this analysis can be considered rural). The results are summarized in table 10.

A number of interesting results appear:

- Around 90 per cent of international MOs sent to other countries are concentrated in the two biggest cities of Burkina Faso.
- Rural areas (that is, those outside major cities) account for 35 per cent of the number of MOs paid and 40 per cent of the total amount paid.
- The average amount sent in urban areas (425 EUR) is greater than that sent in rural areas (303 EUR). For those amounts, the commission paid by clients is, respectively, 2.82 per cent and 2.97 per cent of the amount sent.
- The average amount paid in urban areas (412 EUR) is lower than that paid in rural areas (498 EUR). For those amounts, the commission paid by clients in the sending countries is, respectively, 4.98 per cent and 4.12 per cent of the amount sent (if from France), or 2.91 per cent and 3.01 per cent (if from any sub-Saharan African country).

## V. UPU COOPERATION WITH INTERNATIONAL ORGANIZATIONS

The project with IFAD in West Africa had various positive results:

- Equipment was purchased, installed and tested in rural post offices, enabling the connection of 355 post offices to the UPU's worldwide electronic payment network.
- Secure postal procedures were implemented in rural areas for the payment of MOs. Accounting and cash management procedures were also set up.
- Traffic in 2010 increased by 104 per cent compared with 2009.
- Tariffs were reduced by 30 to 50 per cent.

Encouraged by this first positive experience, the UPU and IFAD sought ways to extend their cooperation into other regions. Two new projects were approved in late 2010; they will involve the development of postal and social payment services in seven countries in Asia and the Pacific and Central Asia.

The UPU is also receiving attention and support from various international organizations for the work it undertakes in favour of facilitating electronic money transfers. Organizations such as the World Bank and the International Organization for Migration support UPU electronic payment development programmes. The cooperation with the World Bank will further develop in 2011 with joint capacity-building activities to be led in sub-Saharan Africa.

**Table 10. Distribution of MO flows and amounts, Burkina Faso**

Ouagadougou – Bobo-Dioulasso				Rest of the country			
MO sent/total		MO sent/total		MO sent/total		MO sent/total	
Number of MO	Amount	Number of MO	Amount	Number of MO	Amount	Number of MO	Amount
86%	89%	65%	60%	14%	11%	35%	40%
-	Average amount EUR	-	Average amount EUR	-	Average amount EUR	-	Average amount EUR
-	425	-	412	-	303	-	498

Source: UPU and SONAPOST (2010).



## VI. POSTAL FINANCIAL SERVICES: THE KEY TO FINANCIAL INCLUSION?

The activities led by the UPU in the field of remittances are a part of the solution to foster financial inclusion through postal networks. Other important activities include linking the provision of remittance services with account-based services to facilitate savings. UPU research developed since 2008 shows that Posts are already key actors in the field of financial inclusion.

Many Posts are leveraging their physical networks to further develop their financial services business, which generally consists of basic savings and payment and remittance services. This no-frills approach, combined with Posts' accessibility, has generated a high level of customer trust in Posts – trust that proved a key success factor during the recent global economic and financial crisis. In Switzerland, for example, total savings deposited by customers at post offices increased by 69 per cent in two years, from 48.3 billion CHF on average in 2008 to 73.3 billion in 2009, and 81.6 billion in the first half of 2010 (PostFinance 2009, 2010).

Postal financial institutions tend to attract a high proportion of low- and middle-income customers. Many immigrants hold postal savings accounts and use them to remit money to their countries of origin. One common attribute of postal financial services seems to be their high level of financial inclusion. For example:

- The French Post established a banking subsidiary, La Banque Postale (LBP), which has almost 10 million account holders, most of whom use LBP as their main bank. In contrast to accounts opened by traditional banks, applications for LBP's Livret A, a personalized microsavings account, cannot be refused; these accounts offer free transactions from 1.50 EUR (Kugemann 2009).
- Correios, the Brazilian postal operator, acts as an agent for Bradesco, a private bank. Together, they launched Banco Postal, a postal financial services business, which leverages the Post's physical network to promote access to financial services. From 2002 to 2010, Banco Postal brought basic savings accounts to 10 million citizens, most of whom did not previously hold bank accounts (Kugemann 2009).

- India Post, with its 155,000 post offices (139,000 located in rural areas), has adopted a multi-agent banking approach: it distributes financial services on behalf of several partner institutions thus acting as an agent for each of them, in addition to the development of its own savings accounts. Either directly or through various partnerships, 220 million savings accounts had been opened with India Post by the end of 2009 (Kugemann 2009). The Post is “the largest micro insurance player in the 13 billion USD Indian life insurance game” (India Knowledge Wharton 2011), and also processes an average of 100 million MOs per year, most of them migrants' remittances.
- Posts are depended on for payments (for example, invoice payments and social benefits) and remittances. According to UPU research (Ansón and Toledano 2010), 1.5 billion people worldwide currently go to post offices for these types of transactions, but only 400 million have accounts. One strategy, adopted by Posts in a number of countries, is to use cash-based services as an introductory product to account-based services and savings. Following that model, the 1.1 billion people who use Posts to access certain financial services without an account could potentially move from informal to formal savings.

## VII. THE WAY FORWARD

The state-of-the-art UPU electronic postal payment network and the regulatory framework developed by the UPU enable Posts to provide secure, reliable and affordable remittance services to migrants and their families. Posts are trusted and accessible everywhere, which are two key factors to convert informal money transfers into formal services. This ensures that clients are adequately protected and that rules against money laundering and the financing of terrorism are enforced.

The postal money orders, with their simplicity, accessibility and affordability, address the needs of migrants and ensure that a maximum amount of money arrives in rural areas, where migrants' remittances have a huge developmental impact. At the UPU level, efforts will continue to ensure that such services are offered to all citizens of the world through the UPU electronic network.

Posts have great potential to further develop remittances and to foster financial inclusion. Indeed, payment services are a first step towards financial inclusion, as payments can be linked to account-based services such as savings or microinsurance. To do so, however, governments need to fully grasp the potential of the Posts and to include postal development into their poverty reduction strategies. On their side, postal financial institutions need to continue to adopt new

technologies and develop affordable and convenient products that address the needs of the poor.

The UPU is already working with partners such as the IFAD, the World Bank and the Bill & Melinda Gates Foundation to tackle these challenges. Posts, through the provision of financial services, can contribute to socioeconomic development, especially in rural areas, but they need to have the support of their governments and of international donors to fulfil that potential.

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## 4. EMPOWERING THE RURAL POOR THROUGH REMITTANCES

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Every year migrant workers send home at least \$350 billion dollars to developing countries across the globe. Remittances are the single largest financial flow to many developing economies, dwarfing development assistance, net exports and foreign direct investment. As a result, remittances represent the most direct and tangible impact of international migration.

As the United Nations' rural poverty agency, the International Fund for Agricultural Development (IFAD) recognizes the tremendous contribution made by millions of migrant workers to the economic development of their families, communities and nations. IFAD's goal is to empower remittance senders and their families to use remittances to stimulate families' livelihoods in order to achieve financial independence.

To this end, the European Commission, the government of Luxembourg and IFAD jointly created the Financing Facility for Remittances (FFR) in 2006 to focus specifically on the contribution of remittances to the rural poor. Subsequently joined by the Inter-American Development Bank, the Consultative Group for Assistance to the Poor, the government of Spain and the United Nations Capital Development Fund, the FFR has become a specialized testing-ground for financial sector interventions.

Operating through demand-driven calls for proposals that seek out innovative projects, the Facility has grown into an almost \$20 million fund for projects in as many countries around the globe with a market-oriented multi-sectoral approach. Drawing from its 40 projects, 150 project-partners and member institutions, the FFR is a centre of expertise, an advocate for regulatory and market reform, and a platform for exchange of ideas between the private and public sector actors that shape the remittances marketplace.

### I. OPERATIONS

Due to the fact that the Facility was designed as a laboratory for innovative projects, the Facility provides grant financing to projects undertaken by a range of public, private and civil society organizations and in a number of remittance-related areas;

**Reaching out into rural areas** – The first priority of the FFR is to ensure the availability of remittances and related financial services in rural areas. In order to achieve this, the Facility has focused on generating projects that examine the contribution of three models to reach underserved areas;

- Postal networks
- Mobile financial services
- Micro-finance networks

**Expanding access to finance** – Building on these three models that stimulate remittance “capillarity”, the next step is to provide services that go beyond simply cashing out a remittance transfer. From the provision of basic financial services such as deposit accounts, to more sophisticated products such as insurance or housing loans, the facility's projects aim to expand the range of choices available to remittance recipients while generating revenues for financial institutions exploring how best to provide for the needs of this market segment. Projects include:

- Access to basic financial services
- Financial literacy
- Deposit accounts
- Innovation in financial services
- Bill-payment
- Housing loans (mortgage and home improvement)
- (Micro-) Insurance

**Migrant Investment** – Remittances form the potential basis for migrant entrepreneurship and investment activities. A number of projects are currently in execution, exploring how migrant capital can create jobs in local communities as well as creating a sound investment opportunity for the migrant.

- Migrant investment
- Agricultural cooperatives
- Small and medium enterprise development

**New areas** – During the 2010 Call for Proposals, the Facility included a number of new potential topic areas for projects. Because remittance-recipient households often also receive government-to-person payments with similar characteristics to remittances, projects including these payments were solicited in 2010. Institutional interest in the topic of securitizing remittance flows to achieve development objectives resulted in the inclusion of this category. Lastly, the calls for proposals include an “open thematic area” which is intended to attract innovative proposals in cutting-edge areas that yet to be identified.

## II. SCALING UP: THE POSTAL NETWORKS INITIATIVE

Building on the results of the *Sending Money Home to Africa* report<sup>108</sup> and the results of a project undertaken by the Universal Postal Union in six West-African countries, the FFR has launched a Postal Networks Initiative in 2011. With 660,000 locations worldwide, the number of post offices is almost double the 386,000 agent locations of the world's largest remittances company. The vast majority (75 per cent) of post offices are located in developing countries, meaning that post offices can effectively address both the first mile and last mile of remittance transfers.<sup>109</sup> For this reason, IFAD is expanding its work on postal networks by drawing on the lessons learned from its initial project with the Universal Postal Union (UPU).

The UPU's Postal Payment Services Agreement (2004) and International Financial System (IFS)<sup>110</sup> application effectively provide the tools to manage the entire remitting process from sender to recipient within the postal system. In the “last mile” postal networks have a unique strength. With 500,000 post offices located outside of the most populated urban centres there is no network of brick-and-mortar locations better suited to delivering value-added financial services than the postal networks.

Postal networks are in many ways ideal conduits for offering the kinds of financial services that banks are unable (or unwilling) to offer lower income rural individuals. In most developing countries, however, utilizing this potential requires a systematic addressing of a number of key bottlenecks including:

- human and technical capacity to offer basic remittances services,
- access to efficient means of conducting international payments,
- regulatory challenges that restrict the offering of value-added financial services,
- exclusivity agreements that limit competition.

Given IFAD's mandate to promote the financial inclusion of rural communities and the FFR's specialized experience in the field of remittances, the Facility has a core competence in advancing this agenda. Furthermore, the Facility can draw on its experience with postal network related projects in a broad range of countries including Benin, Burkina Faso, China, Mali, Mauritania, Niger, Senegal and Sri Lanka. Given the results of our recently completed project with the UPU, the increasing interest it has generated, the strong partnerships and expertise that we have developed, and the tremendous opportunity postal networks represent, we strongly believe that this initiative has the potential to improve the lives of millions of rural remittance recipients around the world.

## III. POLICY: THE TUNIS RECOMMENDATIONS

Central to the Facility's policy work is the biannual Global Forum on Remittances. Held in Washington together with the Inter-American Development Bank in 2007, and in Tunis together with the African Development Bank in 2009, the forum focuses on global topics while focusing on one specific region each year. The event brings together public and private sector representatives as well as civil society groups to discuss the most relevant issues affecting migrant remittances. Each Forum is accompanied by the publication of the FFR's flagship *Sending Money Home* series of reports which highlight region-specific characteristics, challenges and opportunities.

At the 2009 Global Forum on Remittances the participants jointly formulated the Tunis Recommendations on the African Remittances

Marketplace,<sup>111</sup> which have guided the FFR's work on the topic since they were presented by IFAD's Associate Vice-President at the G8 Remittances Working Group meeting in Rome in 2010.

#### IV. INCREASE COMPETITION

- Encourage more actors to enter the marketplace.
- Widen the types of payment networks.
- Discontinue exclusivity agreements when they hamper competition.

Competition is essential to reducing the cost of sending money home, encouraging innovation in the types of products offered to remittance recipients and expanding the geographical reach of remittances. By encouraging a broad range of actors to play a role in the marketplace products and services that meet the needs of every market segment can be developed, expanding and deepening access to finance. Lastly, it is recommended that exclusivity agreements be discouraged and/or discontinued in mature markets by working closely with governments and regulatory bodies. The continued existence of agreements that block agents of a particular money transfer company from offering similar products from other companies maintains monopolies, restricts competition and reduces the amount of hard-earned funds that remains in the hands of migrant workers and their families. In the context of Africa, the Tunis recommendations were brought to the attention of Governments during the G8 process in 2009. Since then, this has enabled a close dialogue with central banks and other regulatory bodies to promote a more competitive and open market.

#### V. EMPOWER MARKET ACTORS

- Facilitate market actors' access to payment system infrastructure to the maximum possible extent.
- Build the capacity of market actors to meet regulatory requirements.
- Foster cooperation and partnership between stakeholders.

In order for a broader range of actors to participate effectively in the remittances marketplace it is essential

that a number of conditions are met. Of primary importance is regulatory approval of an actor to engage in remittances-related services. The subsequent role the actor plays in the remittances value-chain will define their share of the revenues generated. The degree to which non-bank financial institutions are able to access to payment system infrastructure plays an important part in defining their revenue share – and as a result, their commercial interest. In order to be able to take advantage of regulatory approval and/or access to the payment system infrastructure, it is a prerequisite that non-banks have the technical and human capacity to offer services in an efficient, regulation compliant, and secure manner. Finally, as jurisdictions and specific markets may have particular dynamic, it is vital that cooperation and partnerships are encouraged between market actors and regulators alike.

#### VI. ACHIEVE EFFECTIVE AND EFFICIENT REGULATION

- Ensure that regulations are robust, but also commensurate to the level of risk and to the benefit of all.
- Encourage consistent standards of regulations across jurisdictions.
- Consult and evaluate impact before regulating.
- Identify and adhere to minimum standards of client protection.

The primary purpose of financial regulation is to maintain the integrity of the financial system. While these regulations have traditionally been drawn with banks in mind, the remittances marketplace continues to develop. Regulatory priorities and commercial interests must be balanced with developmental goals and the interests of remittance recipients.

For the private sector actors to operate efficiently it is essential that regulations be clear, transparent and that a level playing field exists between different kinds of financial institutions. Further harmonization of regulations and standards, such as the World Bank's General principles international remittance services<sup>112</sup> both at the domestic and international levels will help reduce the cost of sending money home while ensuring maximum protection for the financial system. A risk-based approach to regulation is also essential, keeping in mind that encouraging the formalization of

informal flows may reach many of the same objectives enhanced regulation.

As remittance recipients include groups that have had only rudimentary contact with financial institutions it is essential that their interests be served. The identification of minimum standards of client protection will encourage a level playing field for remittance companies while ensuring that sensitive groups are not taken advantage of.

## VII. ADOPT NEW TECHNOLOGIES

- Modernize technology in payout networks.
- Improve payment systems infrastructure and integrate at regional and subregional levels.
- Encourage development of standards and interoperability.
- Minimize the risk for end-users.

Mobile telephones, the internet and debit/credit cards are each helping transform the traditional paper-based, cash to cash transfer. By making it possible for recipients to receive money electronically in remote locations these technologies provide convenience, speed and increased safety. Companies benefit from increased efficiency and a greater range of information, while regulators are provided with the information they need to ensure the integrity of the financial system.

One area where efficiency gains can be enhanced is in the interoperability of platforms. Establishing common standards and ensuring the use of interoperable systems will encourage smaller market participants to participate in the marketplace without being linked to a specific proprietary solution that locks them in.

## VIII. EXPAND ACCESS TO FINANCIAL SERVICES

- Encourage remittance recipients to maintain their assets in financial institutions.
- Promote financial literacy to all stakeholders, particularly to migrants and their families.
- Encourage the ability of the undocumented to access formal financial channels.
- Design financial services with the specific needs of women and men in mind.

- Use the world-wide postal network to give customers access to financial services.
- Ensure that remittances are not subject to specific taxation.

Remittances are a vital first step on the road to financial independence. While the majority of remittances pay for daily necessities, the 20–40 per cent that is saved or invested can contribute significantly to the household's ability to increase its possibilities.<sup>113</sup> Traditionally, however, financial institutions have not serviced the needs of this segment of the market while remittance recipients have not always been convinced of the benefits of opening a bank account.

In order for both migrant workers and their families to maximize the value of their income it is essential that they are empowered with all the relevant information. Financial literacy is the first step in this process, as transnational families face different issues than many of their neighbours. Understanding budgets as well as relationship dynamics that transcend borders can help migrants and their families achieve their financial goals.

The gender aspects of transnational families have important implications for remittances. With different patterns of sending, saving and investing, male and female migrants and their counterparts heading households back home have different preferences and needs. It is important that service providers understand these needs and tailor products to meet them.

Simply by maintaining their savings in a bank account, as opposed to “under the mattress”, recipients can benefit from earning interest and building a credit history. At the same time, the institutions that accept the deposit can lend these funds out to others in the communities, stimulating local economic growth.

Lastly, conference participants identified taxation of remittances as a significant hurdle to families sending and receiving funds. Because the income remitted home has been taxed in the country in which it is earned, taxing remittances amounts to double taxation. While this may generate funds for recipient governments, it reduces the amount of money in the hands of those for whom it is intended and encourages senders to use informal channels to send their funds.

## IX. MAKE MORE FINANCIAL SERVICES AVAILABLE IN RURAL AREAS

- Encourage market actors, especially microfinance institutions (MFIs), postal offices, credit unions, etc., to act as payout locations.
- Build the capacity of MFIs and non-bank financial institutions in rural areas to provide remittance services.
- Encourage the ability of MFIs to take deposit of rural savings.
- Identify specific ways to link rural areas with non-cash (including mobile) instruments.

The cost of remittances are generally taken as being financial alone, families in rural areas face very different realities from those in urban centres with access to financial institutions. The true cost of remittances is particularly high in the rural areas that receive between 30–40 per cent of worldwide remittances.<sup>114</sup> Recipients in some regions must walk up to two days, simply to collect their funds. The costs incurred, time spent and potential dangers faced during this process each diminish the impact of remittances in the areas that can benefit from them the most. Eliminating the costs and risks associated with travel can contribute significantly to the impact of remittances on rural families. By enabling existing institutions such as MFIs and post offices to offer financial, the hidden cost of receiving remittances can decrease significantly. For MFIs remittances can play an important role as a source of income. While earning commissions on remittances transfer is of interest, the ability to mobilize the money saved is of even greater value.

## X. THE ROAD AHEAD

Over the last decade, development agencies such as IDB, the World Bank and IFAD have been identifying and analysing remittance markets and the regulatory framework in which these operate. These market and regulatory analysis, highlighted in major reports such as the General Principles and Tunis recommendations, have paved the road towards creating a better enabling environment for remittances markets and the people who send and receive them. Doing so will enable stakeholders in the market place to begin deepening and expanding the frontiers of products and ultimately benefit the end user: migrants and their families.

While there is still much about remittances that is unknown in the developing regions of the world, some important success stories and innovations can be highlighted however. African countries, for instance, are leading the way in the use of new technologies, regulatory and market reforms and alternative strategies to expand rural financial access. What is clear is that if remittances were brought into the financial system, many more options would be provided to families through small business loans, housing mortgages, savings and other products. When remittances are deposited in a bank or a microfinance institution instead of being kept “under the mattress” the money can be mobilized for other investments. That way, remittances become a motor for local development, as well as a poverty reduction tool.

It is a difficult, but also an exciting time for the remittances market. Great strides can be made towards expanding financial services and maximizing their benefits in every corner of the continent. Perhaps most importantly, tens of millions of families throughout developing regions in the world would be offered a chance to begin to invest in their own futures.



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**PART III**  
**ADDRESSING SOCIAL DEVELOPMENT  
THROUGH REMITTANCES**

# 1. REMITTANCES: MAKING GLOBALIZATION WORK FOR MIGRANT WORKERS AND THEIR FAMILIES

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ILO estimates that some 105 million of the total 214 million people living outside their countries of origin are economically active, employed, self-employed or otherwise engaged in the world of work.<sup>115</sup>

Migrant workers' remittances are an important driver and outcome of international migration. Remittances express the solidarity of migrant workers with their families and communities in their countries of origin; as a private and autonomous type of financial resource that crosses borders. They can be pivotal in transforming the benefits of migration into development. Remittance flows exceed ODA and FDI to many developing countries.

- Remittances: a major financial resource for poor households in origin countries:
- Providing incomes for better nutrition, housing, education, health care.
- Fostering the creation of enterprises and jobs in the countries/areas of origin.
- Preventing further out-migration from rural areas by providing livelihoods for families left behind.

Investments are traditionally not the primary use of remittances in countries of origin. There is however scope for defining smart fiscal and other incentives and public policy initiatives to attract more savings into productive investments, which can be a factor in upgrading the informal into formal economy.

Remittances and their use vary according to gender. Research indicates that women migrant workers have a tendency to remit and invest more in the health and education of their families.<sup>116</sup> Also, women recipients of remittances seem to prioritize household needs such as food, clothing, housing, education and health, whereas men often use resources for savings and investments to generate greater benefits in the future.<sup>117</sup>

Time horizons and immigration status also matter, e.g. it is a known fact that migrants remit less in the early stages of their migration experience.

The issue of remittances has become even more topical with the financial and economic crisis. Remittances have usually been thought to be countercyclical with the GDP in recipient countries, with migrant workers expected to increase support to their families in times when family income back home shrinks. However, remittances also respond to the state of economic activity in the host countries as the current crisis illustrates. Indeed, it appears that remittances (along with trade, foreign direct investments and private equity flows) have contributed to transmitting the effects of the host economy contractions to the recipient economies. These contractions then hamper growth and efforts in poverty reduction in a number of developing countries with significant remittances inflows. Particularly in this context, it will be important to capitalize on remaining opportunities, e.g. by reducing transfer costs and making sure that remittances are productively invested in diversified and innovative activities, e.g. in the creation of green jobs.

## I. THE ILO APPROACH TO REMITTANCES

### Remittances: A Migrant Worker's Right

The ILO has a constitutional mandate to protect migrant workers and has been dealing with labour migration issues since its inception in 1919. ILO adopts a rights-based approach to labour migration and promotes tripartite participation in migration policy. It has pioneered international Conventions to guide migration policy and protection of migrant workers.

Along with the United Nations' International Convention on the Protection of the Rights of all Migrant Workers and Members of their Families, the ILO Migration for Employment Convention, No. 97 (revised) 1949, and the Migrant Workers Convention

No. 143 (supplementary provisions), 1975, provide principles and rules which aim at protecting migrant workers' rights and guaranteeing decent working conditions to migrant workers and their families.

ILO Convention No. 97 states that "each Member for which this Convention is in force undertakes to permit, taking into account the limits allowed by national laws and regulations concerning export and import of currency, the transfer of such part of the earnings and savings of the migrant for employment as the migrant may desire."

The ILO Multilateral Framework on Labour Migration, Non-Binding principles and guidelines for a rights-based approach to labour migration, adopted by a tripartite meeting of experts in 2005 highlights that "the contribution of labour migration to employment, economic growth, development and the alleviation of poverty should be recognized and maximized for the benefit of both origin and destination countries" (Chapter IX).

## II. GLOBAL ILO INITIATIVES INCLUDING THE REMITTANCES' DIMENSION

In November 2005 the ILO Governing Body adopted the ILO policy on social finance which flags remittances as a priority work item.

At the 2008 International Labour Conference, the international community adopted an ILO Declaration on Social Justice for a Fair Globalization. From the angle of this Declaration remittances are significant because of the scope for improving the social protection of the families left behind. Remittances can provide financial resources to migrant workers' families and ensure their access to health care services. Migrant workers abroad can also cover their families by paying directly contributions to a microinsurance mechanism covering their families in the country of origin.

The ILO Global Jobs Pact (GJP), adopted in 2009 as a policy framework to accelerate job rich crisis recovery, calls for "building a stronger, more globally consistent, supervisory and regulatory framework for the financial sector, so that it serves the real economy, promotes sustainable enterprises and decent work and better protects savings and pensions of people". The GJP recognizes that specific policy measures are needed to counter the negative effects of the financial

and economic crisis and emphasizes the need for measures to facilitate the access to finance for the families of migrants in the home countries, including by microfinance institutions.

## III. ILO ACTION TO IMPROVE THE BENEFITS OF REMITTANCES

The ILO intervenes on the:

1. Supply side of financial services in order to foster the use of remittances for income generating activities: this involves working with the financial institutions so that they develop adequate and innovative financial services;
2. Demand side of financial services: this involves working with migrant workers and their families, benefiting from remittances, to strengthen their capacity to make informed and rational choices about the use of remittances and remittances-linked services, leading to poverty alleviation.

Workers' and employers' organizations have an important role to play at the sending and receiving ends of remittances:

Employers' organizations: encourage entrepreneurship development in low income countries through investment of remittances, and in the migrants' host countries, facilitate payroll deduction, and provide financial orientation and access to financial payment facilities such as ATM facilities on shop floor or specific financial services developed in partnership with financial institutions.

Workers' organizations: provide financial orientation for migrant workers and their families, both in countries of origin and destination, advocate for more accessible financial infrastructure, and support the development of financial schemes for migrant workers to facilitate access to financial services.

## IV. RESULTS SO FAR

The ILO, through different departments and field offices – have developed a series of initiatives to share knowledge and build institutional capacity, involving governments, social partners, migrant organizations, financial institutions, migrants and their families.

In November 2000, the Social Finance Programme of the ILO (SFP) organized a major international conference “Making the best of Globalization – the role of remittances”. It was an opportunity to examine systematically the private and social costs and benefits of remittances, and especially to look at remittances from migrant workers’ point of view.

SFP has carried out action research on migrant workers’ remittances and microfinance in Bangladesh, Mexico, Nepal, Senegal and South Africa, mapping remittance patterns between and within countries and assessing the availability of suitable transfer services and the transaction costs involved. ILO projects in South–East Europe (Albania, Republic of Moldova) provided assistance to the Governments to develop a strategy and an action plan on remittances, also helping with the implementation of specific measures to improve the environment for formalization and investment of remittances.

ILO projects implemented in Africa, Asia, Central Asia and the Caucasus by the International Migration Programme (MIGRANT) all include a remittance dimension, whether through research incorporating the remittance factors in the analysis of migration or through technical assistance, developing training programmes in financial capability for migrants and their families, or involving financial institutions in providing support for reintegration of migrant workers.

At the International Training Centre of the ILO (ITCILO), training courses are provided in different languages on labour migration issues with some specific modules dedicated to remittances. Besides, within the framework of projects implemented in Africa on labour

migration issues, the ILO provides in its training courses to trade unions a specific component on remittances in order to enhance trade unions’ capacities to inform and support their members.

The ILO through its Microinsurance Innovation Facility is currently assessing the feasibility to link remittances with social protection. The Social Finance Programme and the International Migration Programme of the ILO along with the ILO Regional Office for Africa and Professor Alain Letourmy from the INSERM are currently working on mechanisms for extending social protection coverage to migrant workers’ families left behind in origin countries, through health microinsurance initiatives financed by remittances from Senegalese, Malian and Comorian migrant workers abroad. A study on the feasibility of such an approach is nearing completion in Kayes (Mali) and Matam (Senegal), two rural areas with high levels of out-migration. These studies include surveys of migrant workers in France and of family members in origin countries to ascertain the amount of financing migrant workers would be willing to provide for health insurance and the needs of their family members. The next stage will be to pilot a micro-health insurance.

In many developing countries the proportion of people working in the formal economy and covered by national social security schemes is comparatively low. Therefore, the number of migrant workers which may be covered by bilateral social security agreements still remains small. In such a context, it is particularly important to explore different strategies to extend the social protection of migrant workers and their families. Using remittances to protect migrant workers’ families left behind in origin countries is one such option.

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## 2. REMITTANCES OF WOMEN MIGRANTS

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Ladies and Gentlemen,

At the outset, I wish to thank Mr. Supachai Panichpakdi, Secretary-General of UNCTAD, for the invitation to participate in this important and timely expert meeting. It is indeed an honour for me to be part of this distinguished panel.

I bring greetings to you from UNFPA's new Executive Director, Dr. Babatunde Osotimehin.

I would like to focus my remarks on a topic which is of particular importance to UNFPA – women and remittances. In 2006, UNFPA dedicated its flagship publication, the annual State of World Population report to Women and International Migration. It was entitled: A Passage to Hope. In it we pointed out that despite migrant women's contributions to poverty reduction and struggling economies, it is only recently that the international community has begun to grasp the significance of what migrant women have to offer.

In my remarks today, I will speak about the proportion and contribution of women migrants, the impact of their remittances, the effects of the financial crisis, and the need to protect the rights of women migrants and take other measures to maximize the development impact of the remittances they send.

### I. PROPORTION AND CONTRIBUTION OF WOMEN MIGRANTS

At 49.2 per cent, female migrants constitute half of the international migrant population. In some regions of the world, they outnumber their male counterparts. We see this in Europe, Northern America and Oceania, but also in individual countries in other regions.

As per data from the United Nations Population Division, female migrants outnumber men slightly in developed countries where they constitute 51 per cent

of international migrants between 20 and 64 years of age. In developing countries, women account for 43 per cent of the international migrants in that age group.

Indeed, women are not just passive players who accompany or join migrating husbands or other family members. Migrant women are in many cases the only contributor to family income. Many women increasingly migrate on their own in search of better opportunities for themselves and their families. And they contribute to improvements in the quality of life in both countries of origin and destination.

Every year, migrant women send large sums of money in the form of remittances to feed families, clothe and educate children, support older persons, provide health care and generally improve living standards for families left behind.

In host countries, many migrant women are employed in households of working families, taking care of their children, the elderly and the household. Others contribute technical and professional expertise as teachers, nurses, scientists, technicians and business owners.

### II. REMITTANCES OF WOMEN MIGRANTS

Despite the growing number of women migrants and the importance of the remittances they send to families left in countries of origin, there has been little analysis of the relationship between gender and remittances. Remittances are typically not disaggregated by the sex of remitters and receivers. As a result, not much is known about gender differences in the sending patterns, the use and impact of remittances, or the contribution of migrant women to local development in countries of origin.

However, despite the lack of data, some studies do provide a glimpse into the realities behind the gender aspect of remittances. Studies suggest that the sex of the sender affects three factors: namely the volume, the frequency and the sustainability of resources over time.

While globally, women remit approximately the same amount as men, research suggests that women tend to send a higher proportion of their income regularly and consistently, even though they generally earn less than men. Also, remittances sent by women are more able to respond to emergency situations. However, by sending smaller sums more often, women tend to spend more on transfer fees. Therefore, reducing transfer fees and making different transfer options accessible would benefit women migrants and maximize the positive impact of remittances on their families and communities and development.

It should also be pointed out that remittances sent via informal channels are not counted in the official statistics. According to the World Bank, remittances sent informally could add at least 50 per cent to the globally recorded flows. Therefore, our sense is that women remit more than the statistics show.

A 2008 United Nations study on gender, remittances and local rural development examined Filipino migration to Italy. The study concluded that the remittances had increased and diversified the employment opportunities available and improved the economic empowerment of women.

Research shows that remittances sent by women would have an even greater impact on families and communities if women did not face wage, employment, credit and property discrimination, and if they were not excluded from decision-making within their families.

There are also gender differences in the utilization of remittances: women tend to use remittances for daily needs, health care and education while men tend to spend remittance income on consumer items such as cars and televisions, and some for investments such as property or livestock.

Studies also show that migrant women benefit from cultural exchange and being exposed to different ideas, skills, attitudes and knowledge. These exchanges boost socioeconomic development and can advance gender equality and women's empowerment through opportunities for greater independence and self-confidence.

Women who send remittances have the status, autonomy, freedom and self-esteem that come with employment. In addition, some women who receive remittances take on new roles as they assume responsibility for managing the additional income and making financial decisions in the household.

However, we must keep in mind that while migration and the sending of remittances by women migrants can aid development and reduce poverty, typically, the poorest families cannot afford to send migrants abroad. They do not receive remittances.

### III. IMPACT OF FINANCIAL CRISIS

Now let me turn to the impact of the financial crisis. UNFPA recently prepared a Global Migration Group Fact Sheet on the Impact of the Economic Crisis on Female Migration. We found that while women typically send a larger percentage of their earnings home to their families, it remains to be seen how resilient these remittances will remain during the economic crisis.

Female migrants are likely to find it increasingly hard to obtain regular employment abroad. If they do find jobs, it is likely that the jobs will pay less and will have decreased benefits. This may impact the amount of remittances they will be able to send home which, in turn, will impact the quality of life for families who count on remittances to provide the food, health care and education they need.

### IV. CONCLUSION

In conclusion, I would like to stress that cooperation and collaboration between sending and receiving States should ensure flexible and coherent policies that promote the orderly flow of migration and protect the rights of migrants. Female migrants should be viewed not only as workers but also as human beings with rights. They should be protected from trafficking, discrimination and abuse.

To maximize the development benefits of remittances from women migrants, we need sex disaggregated data and gender-sensitive research on the sending, use and impact of remittances. We need to reduce the costs associated with migration, and improve the financial literacy and entrepreneurship skills of migrants and their families.



We need to reduce transaction fees of remittances, and provide financial products and investment opportunities tailored to the needs of migrants and their families. We also need a sound investment climate and regulatory framework.

And, finally, we must integrate the gender dimension into the management of all aspects of migration. Gender matters – for migration and for remittances.

Thank you and look forward to our discussions.

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### 3. THE IMPACT OF REMITTANCES OVER FAMILIES LEFT BEHIND

Kirsi Madi

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United Nations Children's Fund (UNICEF)  
on behalf of the Chair of the Global Migration Group

Mr. Chair, Distinguished Panel, Delegates, Colleagues,  
I would like to thank UNCTAD for organizing this very important and timely event.

There is no doubt that remittances represent a significant resource for children and families in countries of origin. One of the main benefits of remittances, as highlighted by the UNCTAD report on the Impact of Remittances on Poverty in Developing Countries, is the positive impact on the reduction of poverty through the diversification of household income and the multiplier effects on the economy. Furthermore, remittances can significantly improve the welfare of children and families left behind by providing additional resources for ongoing needs. Research has shown that remittances can play a pivotal role in improving education, health, nutrition and overall living conditions of those left behind.

However, while remittances can reduce the depth and severity of poverty by raising household income among those who receive them, the overall effects are not distributed evenly within countries of origin. Indeed, migration from some regions is more prevalent than from others. In addition, the impact of remittances depends on the economic behaviour and income allocation decisions of migrants and their families.

#### I. PSYCHOSOCIAL IMPACTS OF MIGRATION AND REMITTANCES ON CHILDREN AND ADOLESCENTS LEFT BEHIND

Although remittances can increase household income and generally benefit children economically, the migration of parents also has the potential to generate negative psychosocial consequences among those left behind.

Children and adolescents left behind are by far the most overlooked group within the migration debate. They may be left in vulnerable situations when one or both parents make the decision to migrate and – depending on the age and circumstances in which they are “left behind” – may face a number of challenges to their emotional and physical wellbeing beyond the economic benefits provided by remittances.

UNICEF's country studies suggest that children and adolescents left behind may be at greater risk of abuse and domestic violence, drug abuse, teenage pregnancy, psychosocial dysfunction and criminal behaviour. They may also experience emotional deprivation when left in the care of much older relatives, as generational differences can be an obstacle to effective communication and emotional support that is crucial to their healthy and prosperous development. They may also experience difficulties with their peers, who may resent the benefits they receive as a result of remittances.

#### II. REMITTANCES AND GENDER

The gender analysis of the social impacts of remittances has identified the pivotal role of gender norms, which impacts the gender and age composition of migrants; on the employment situation in destination countries; and on the volume, use and impacts of remittances. Indeed, gender norms influence the decisions about who – men, women, or young adults – will migrate, and clearly play an important role in labour demands in host countries (e.g. the increasing demand for female care workers).

Furthermore, the gender of the migrating parent can have significant impacts for children left behind. UNICEF country studies indicate that the migration of mothers generally has severe effects on children's emotional, psychological and physical health. Girls left behind must frequently take on full household

responsibilities, as they “inherit” their mother’s traditional roles. In several countries the research also found that girls in left-behind households are highly vulnerable to situations of sexual exploitation and abuse.

Minimizing the vulnerabilities, raising awareness about the issues facing children, adolescents and women affected by migration, and empowering them to deal with these challenges, has never been more pressing than today.

### **III. IMPACT OF THE GLOBAL FINANCIAL CRISIS ON FAMILIES LEFT BEHIND**

The global financial crisis, along with the food and fuel crises which have affected most parts of the world, has left us with valuable lessons and important and difficult challenges lying ahead. The crisis severely impacted the capacity of migrants to send money back home, further deepening the vulnerabilities of families left behind in many countries of origin.

While remittance flows have started to grow after a significant decline in 2009, the crisis and its effects on remittances are far from over. The uncertainty associated with job creation in major migrant destinations, and in industries where migrants tend to be employed, remains high. In a fragile global economy, high unemployment levels can affect the frequency and amount of remittances sent back home. Experience from previous crises indicates a range of potential negative impacts on children such as cut backs on children’s education and health-related expenses. We know only too well what this means for children in the immediate and longer term.

### **IV. LOOKING BEYOND ECONOMIC EFFECTS**

It is our view that any analysis of the impacts of remittances on development has to go beyond economic explanations so that potential vulnerabilities can be adequately addressed.

Today’s meeting is intended to highlight four issues in particular: (1) opportunities and challenges that future trends on migration and remittances pose; (2) the impact of remittances on poverty reduction, economic growth and development; (3) facilitating the flow of

remittances to decrease the risk or cost of sending money back home; (4) addressing the barriers to remittance flows through facilitating a human rights-based temporary migration.

These issues this meeting is addressing are immediate and real for children, adolescents and their families impacted by migration. However, we must recognize that they are by no means a comprehensive list of concerns. As mentioned earlier, one often overlooked issue is that of children left behind and how they are affected by remittances beyond its economic impacts.

The positive impacts of migration and remittances can only be harnessed through sound economic and social policies in countries of origin and countries of destination. These policies must be based on the basic principles of equity and social inclusion and must protect the rights of migrants and those left behind. UNICEF experience shows that their impact is greater when they help families to improve their quality of life beyond economic indicators.

Mr. Chair,

This year, we celebrate the International Year of Youth, which promotes dialogue and understanding. In that context, I would like to reiterate that age and gender perspectives need to remain at the core of our discussion of development in the context of migration. It is crucial to keep in mind that greater efforts are needed to address emerging challenges posed by migration associated with climate change and urbanization, particularly in the context of developing countries.

As the Chair of the Global Migration Group during the first half of 2011, UNICEF wishes to thank UNCTAD for organizing this very important dialogue that no doubt will yield valuable, practical perspectives from countries and stakeholders. UNICEF looks forward to working effectively with Member States, civil society and GMG partners to identify comprehensive strategies and operational responses to address the challenges and maximize the positive impact of remittances on development.

The GMG looks forward to the recommendations that will stem from this expert meeting and trusts that these will be very pertinent to the Member State discussion during the General Assembly informal thematic debate and the Practitioners Symposium hosted by the Global Migration Group in May.

Thank you.



**PART IV**  
**REGIONAL AND COUNTRY EXPERIENCES IN  
CHANNELLING REMITTANCES FOR HUMAN  
AND ECONOMIC DEVELOPMENT**

## 1. REMITTANCES IN THE AFRICAN, CARIBBEAN AND PACIFIC COUNTRIES<sup>118</sup>

Susanne Melde

Research Officer, ACP Observatory on Migration

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Remittances and its catalyst role by impacting on the development of low-income countries have been receiving increasing attention by the international community, academia and media in recent years. For nationals of the African, Caribbean and Pacific (ACP) Group of States – which brings together 79 countries from the six ACP regions – remittances and migration represent an important livelihood strategy and driver of development, increasingly included on the forefront of governments' political and programmatic agenda.

### I. A SNAPSHOT ON REMITTANCES INFLOWS TO ACP COUNTRIES

According to World Bank estimates, in 2010 the global remittance flows have exceeded USD 440 billion with the large majority (USD 325 billion) going to developing countries (World Bank, 2010a). Considering that ACP countries make up more than half of the developing countries<sup>119</sup> and given the increasing number of migrants moving towards high-income countries, one would expect significant amounts of remittances sent back home. However, according to officially recorded remittances, from the total amount of remittances sent to developing countries in 2010 only about 9 per cent were transferred to ACP countries. On a global scale, in 2010 ACP countries are believed to only having received 6.7 per cent of all remittances worldwide, equal to almost USD 30 billion.<sup>120</sup> About one third of this amount is estimated to have been received by Nigeria alone (USD 9.9 billion), the only ACP country which appears among the top ten remittance-receiving countries worldwide. However, there are different factors indicating that these figures might underrepresent the actual flows, such as the lack of capacity to capture remittances flows or the transfer through informal channels of goods.

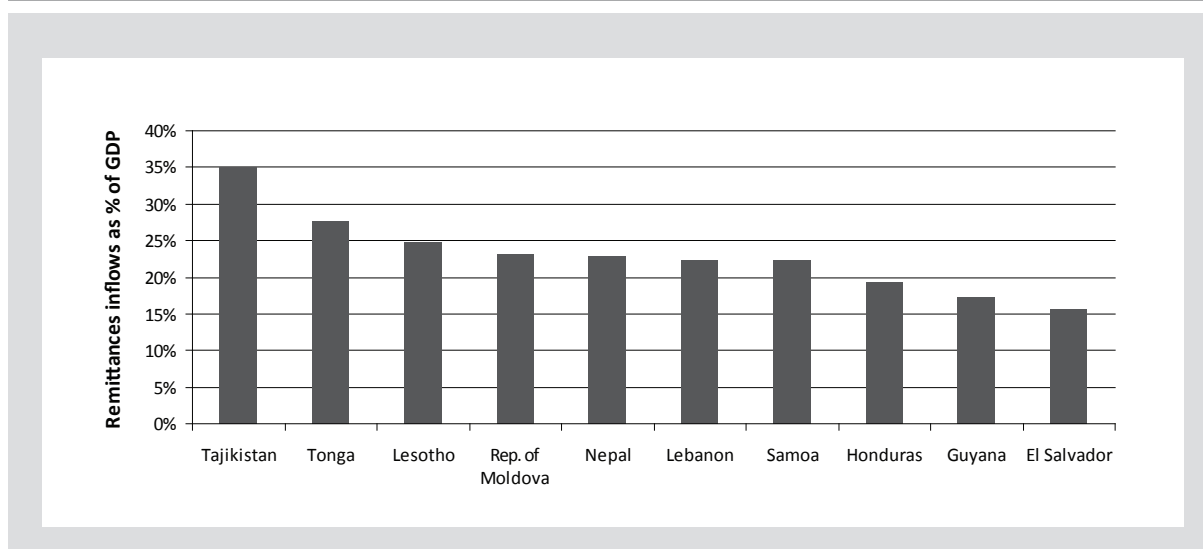
A different picture appears when looking at remittances flows as a share of the Gross Domestic Product (GDP) of a remittance-receiving country: among the global top ten remittance-receiving countries (as a percentage of the GDP) four were ACP countries (Tonga, Lesotho, Samoa and Guyana – with the first two, 28 per cent and 25 per cent respectively, second only to Tajikistan; see figure 8), and 13 ACP countries were placed within the global top 30. Five of these ACP countries are located in West Africa which receives the largest amount of remittances of all six ACP regions<sup>121</sup> with about 43 per cent of all funds received from ACP migrants; more than a quarter went instead to ACP countries in the Caribbean (World Bank, 2010a).

A comparison between the inflows of remittances with official development assistance (ODA) highlights the low ratio of ACP countries in Central Africa compared to the countries in the other five ACP regions. This is partially due to the lack of data reported for half of the countries.<sup>122</sup> In West Africa, ODA still exceeds remittances with some notable exceptions (i.e. Côte d'Ivoire, Nigeria, Senegal and Togo), while in Southern Africa remittances received by ACP countries surpass ODA (except in the case of Namibia) and in the Caribbean remittances inflows are generally much higher than ODA (exceptions are Suriname and Saint Vincent and the Grenadines) (Gallina, 2010 based on UNDP, 2009 data).

### II. SOUTH-SOUTH MIGRATION AND INTRA-ACP REMITTANCES FLOWS

Developing countries are commonly seen as a source rather than as a destination of migrants. However, existing figures highlight the importance of intraregional movement: in 2010, "there were almost as many

Figure 8. Top ten remittances receiving countries as a share of the GDP, 2009



Sources: World Bank, 2010a.

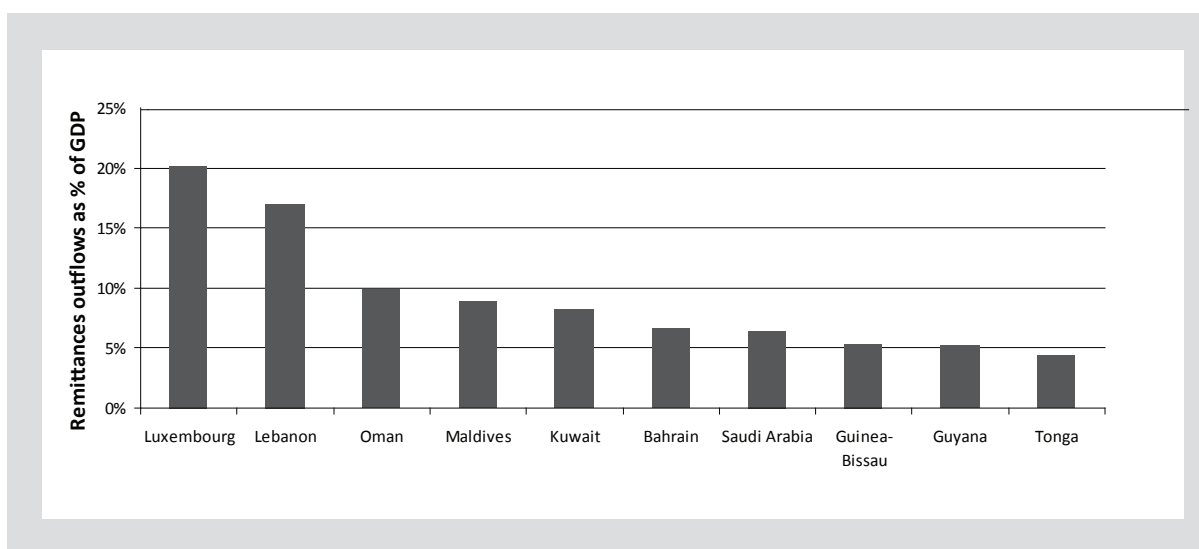
migrants from developing countries living in other developing countries (73 million) as migrants from developing countries living in developed countries (74 million)".<sup>123</sup> Human mobility within subregions and continents has always been important, but was seldom recognized as such. This applies in particular to countries located in sub-Saharan Africa: in 2010, 63 per cent of sub-Saharan migration was intraregional, directed mainly towards countries such as South Africa, Burkina Faso and Kenya (World Bank, 2010a).

Accordingly, remittances flows between developing countries are likely to play an important role as well, thus requiring an increasing focus on South-South remittances. In particular outflows have been largely overlooked, and little evidence is currently available on the true extent of outflows. Indeed, some ACP countries are important regional immigration hubs and, consequently, record high figures in remittances outflows. In the United Republic of Tanzania, for instance, in 2009 figures for remittances outflows are estimated to be more than three times higher as those for inflows (USD 17 million in outflows compared to USD 54 million in inflows).<sup>124</sup> Similarly, the amount of remittances sent from South Africa in 2009 (USD 1.2 billion) exceed inflows highlighting its importance as an immigration country in the region.<sup>125</sup> In some cases, remittances outflows can be generated also in absence of large shares of migrants, such as in developing countries rich of natural resources where high profits

from the mining industry represent the large majority of remittances outflows. Overall, officially recorded remittances outflows from ACP countries are about eight times smaller than inflows, with an estimation of USD 4.1 billion for 2009, representing only 1.5 per cent of the global total and 7 per cent of remittances sent from developing countries (equal to USD 58.7 billion).<sup>126</sup> Most informal and in-kind transfers, such as consumer items and food, are not reflected in these figures.

Similar to inflows, for some ACP countries outflows seem to play a more significant role if expressed as a share of the GDP: Guinea-Bissau, Guyana and Tonga appeared within the ten leading remittance-sending countries in 2009 (5.4 per cent, 5.2 per cent and 4.3 per cent, respectively; see figure 9) and among the top 30 remittance-sending five additional countries are part of the ACP Group of States (i.e. Uganda, Seychelles, Jamaica, Togo and Belize) (World Bank, 2010b).

Furthermore, when comparing 2009 figures for remittance outflows from ACP countries with those registered in 2000, the relevance of outflows appears even more clearly: in less than a decade remittances outflows have increased almost ten-fold (USD 4.1 billion and USD 477 million, respectively). This could be linked to enhanced capacities in collecting remittances data, improved access to money transfer

**Figure 9. Top ten remittances sending countries as a share of the GDP, 2009**

Source: World Bank (2010a).

providers and the high number of migrants moving to or transiting in ACP countries.

When considering South-South flows one would expect that the amount of remittances sent per migrant are smaller compared to North-South remittances due to the lesser wage differentials among ACP countries and other developing countries. However, the size of remittances sent appears to depend more on the living costs in the country of origin rather than on the country of destination (Page and Plaza, 2006). Thus, the amount of remittance sent per migrant between ACP countries might actually diverge less than expected from the one being sent from high-income countries.

Furthermore, a recent household study found out that the use of remittances can significantly differ depending from where the remittances have been sent. In Nigeria, for instance, remittances received from other African countries were mainly used for business purposes and food items, while inflows coming from outside Africa were devoted to the purchase of land and education. In Kenya, instead, remittances from Africa were primarily used for the construction of new houses, while those originating outside the continent were utilized for investment (World Bank, 2011). Such differences highlight the contributions remittances can make to the well-being of households but also stress diverging needs ACP countries might have when seeking to foster the flows of remittances from abroad.

With regard to South-South flows, it should also be mentioned that although many ACP countries are characterized by large internal movements, their impact on poverty reduction and development has so far been largely overlooked. Consequently, only limited information is available on internal remittance flows in ACP and other developing countries. The case of Kenya, for instance, highlights the need for increased attention by researchers and policy makers on internal flows: in 2009 more than half of all respondents to a household survey on financial access conducted by the Central Bank of Kenya and Financial Sector Deepening (FSD) Kenya claimed to have received internal transfers, compared to 16.5 per cent in 2006.

### III. INFORMAL NATURE OF REMITTANCES' TRANSFERS

Remittances patterns between developing countries compared to flows from developed to developing countries could differ significantly when it comes to the channels used to transfer remittances. Although the size of informal remittances is unknown, thus not appearing in official statistics, it is believed that remittance figures to developing countries could be up to 75 per cent higher if the informal money transfers would be accounted for in the official statistics (Freud and Spatafora, 2005). In the case of many ACP

countries this share is likely to be even higher: Central Africa is estimated to be the region with the largest share of informal intra-regional transfers (Gallina, 2010); in Southern Africa informal channels are the preferred option (being as high as almost 90 per cent in Lesotho) (Crush et al., 2010) or estimated to be the almost exclusive way in studies of the South Africa-Zimbabwe corridor (Kerzner, 2009); informal remittances flows are believed to be as high as 80 per cent of all flows to Uganda (UN-OHRLLS and OSAA, 2006); and 60 per cent of those surveyed in a study on the United Republic of Tanzania-Uganda remittance corridor, indicated they prefer sending money through informal systems, such as bus drivers, money changers and sex workers crossing the border regularly (IOM, 2009a). For other sub-Saharan countries informal transfers are largely unknown, thus not reported in official remittance transactions in their Balance of Payments, including countries such as the Central African Republic, the Democratic Republic of the Congo, Somalia and Zimbabwe that probably receive large remittance flows (Mohapatra et al., 2010).

In addition to informal financial flows, goods such as consumer and food items are also transferred to families and relatives in origin communities. These items are usually not captured in official statistics or in remittances surveys.

Higher percentages can partially be explained by differences in the challenge of financial inclusion i.e. access and use of financial products by migrants (such as savings accounts, financial literacy, investment schemes etc.). While in high-income countries banks and other financial institutions compete in offering the most attractive product financially viable for both migrant and remittance-sending agency,<sup>127</sup> in many developing countries basic infrastructures and networks of financial institutions operating in their country still need to be created or substantially improved.

Money transfers between two countries lacking a well-functioning and diversified financial market – favouring competition and thus more attractive prices for customers – tend to be informal and costly. Indeed, while transfer costs from developed to developing countries have been reduced significantly during the last decade, sending money between developing countries usually implies the loss of a significant part of the amount remitted (IFAD, 2010). Indeed, remittances costs can be as low as USD 5 between the United States of America and Mexico, and USD

1 between Gulf Cooperation Council (GCC) countries and South Asia, while sending remittances between sub-Saharan countries can cost between 5 and 15 per cent of the amount remitted. Most expensive sub-Saharan remittances corridors include Burkina Faso-Ghana, Nigeria-Ghana and Nigeria-Benin with costs above 10 per cent of the amount remitted (World Bank, 2011). Such high transfer costs, in particular intraregionally, remain a key obstacle for migrants to sending money through official channels (IFAD, 2010). Possible explanations for high costs include the requirement of Money Transfer Operators (MTOs) to be attached to a commercial bank, the mandatory conversion of remittances into the national currency or legislation on exchange rates, banks controlling the market, etc.

Besides, high transfer costs are faced in particular by female migrants, often obliged to use informal channels due to difficulties in accessing formal transfer means, in addition to discrimination related to wages and access to property. Such gender-based inequities observed in some high-income countries are likely to be even more pronounced in developing countries. In the Southern Africa region, for instance, women send significantly less due to lower wages and different employment status (or lack thereof) (Dodson et al., 2008).

Greater competitiveness in the formal sector can reduce significantly transfer costs such as was the case in Nigeria thanks to the prohibition of exclusivity contracts of MTOs (Kerzner, 2009; Irving et al., 2010). However, reducing costs and increasing awareness may not necessarily lead to higher amounts of remittances as the decision to remit remains primarily an individual decision of the migrant which can lead to fluctuations in the amount remitted.

Combined with awareness-raising campaigns highlighting different transfer options to migrants (such as information consumer charts and transfer-costs-comparisons websites), an opening of the money transfer market to more competitors also increases the number of access points and thus the amount of remittances sent through formal channels. For instance, a recent project in West Africa lead by the Universal Postal Union (UPU) and the International Fund for Agricultural Development (IFAD) resulted in the creation of 355 new post offices in rural areas which in turn increased remittances inflows by over 100 per cent to those areas between 2009 and 2010 (Nanba, 2011). More innovative options aiming at



facilitating access include mobile phone networks. Their coverage is usually more extensive compared to the internet (i.e. online money transfers); however, regulatory obstacles hamper the use of mobile phones on a broad scale.

#### IV. RESILIENCE DURING THE GLOBAL ECONOMIC AND FINANCIAL CRISES

The global economic and financial crises over the past years have highlighted the resilience of remittances as compared to other financial flows such as foreign direct investments (FDI) and official development assistance (ODA). Overall, remittances have shown to represent a stable source of finance during times of crises, and in relatively short time their growth rates were back to those registered in pre-crisis years. This is particularly true for ACP countries: the decline in remittances during the 2008–2009 period was modest compared to a 40 per cent decline in foreign direct investment (FDI), trust funds, private debt and portfolio equity flows to developing countries (Gallina, 2010; Mohapatra et al., 2010). From 2008 to 2009, remittances to ACP States decreased by 4.1 per cent, which is lower than the world average (with a 6.1 per cent decrease) or that for developing countries overall (with a 5.5 per cent decrease). Remittances increased by 4 per cent between 2009 and 2010 indicating the recovery of ACP countries from the crises.<sup>128</sup>

One would expect a similar resilience also for remittances outflows as many ACP countries were less affected at home by the economic crisis due to a lower integration in the international financial market. Instead, outflows decreased by 16.8 per cent between 2007 and 2008, indicating that ACP countries were affected to a larger extent by the financial crises initiating the global economic recession.<sup>129</sup> This can partially be explained by the contraction of economic key sectors attracting foreign investment and thus generating high profits leaving the country such as the mining and oil industries in Angola. However, starting from 2008 remittance outflows increased again by about 16 per cent and recovered, like remittance inflows, to pre-crisis levels.

Remittances' countercyclical nature places them as an invaluable source of external funding during shocks and after disasters, for unexpected expenditures, such as health emergency care and funerals, and for areas

affected by environmental degradation and can thus help to mitigate negative impacts (UNDP, 2009; UN OHRLLS and OSAA, 2006). Furthermore, the quick recovery of remittances flows is particularly essential for countries relying on this external source of income as a mean to foster poverty reduction. Remittances improve the standard of living and family welfare, access to food, water, health care and education, in particular for children, and thus impacting on fundamental human rights (Bakewell, 2009; Ghosh, 2006; Luthria, 2009). This is the case for many ACP countries: in Uganda, for instance, the percentage of poor people decreased by 11 percentage points thanks to regular inflows of remittances (Ratha and Mohapatra, 2007). In Kenya, instead, a survey found an increased dependence on remittances as sources of income, with 21 per cent of surveyed Kenyans in 2009, up from 14.3 per cent in 2006; for young people, these transfers have become the main income (60.1 per cent in 2009, 54.6 per cent in 2006; Central Bank of Kenya and FSD Kenya, 2009). Similarly, for almost 40 per cent of the respondents in a household survey in Angola remittances represent an essential (additional) source of income and 16 per cent of households entirely depend on remittances as income (Alvarez, 2010). Overall, remittances contribute only in part to the total income of a household (in average for developing countries about 60 per cent of all earnings) but it is likely that in some ACP countries the dependency rate is much higher.

Furthermore, the resilience of remittances shown during the global economic crisis might increase the number of households trusting in continuous money flows from abroad and thus entirely rely upon them. Such a development would expose in particular children and other vulnerable family members (as remittances increase household income to cover basic consumption needs as well as educational and health expenses) but also increase the social pressure on the migrants often forcing them to live in precarious conditions to save as much money as they can for their families and relatives at home. Households relying on remittances might also impact existing social structures as receiving remittances may increase or decrease inequality between households with a migrant and those without. On the other hand, an increase number of households receiving remittances might generate economic activities through (increased) demand for goods and services through more available income and enabling access to micro- and small credits for small-scale entrepreneurs (UN-OHRLLS and OSAA, 2006).

## V. RECOMMENDATIONS FOR POLICY INTERVENTIONS FOSTERING THE IMPACT OF REMITTANCES ON THE DEVELOPMENT OF ACP COUNTRIES

Remittances may be the most tangible part of the migration–development nexus in ACP countries. When considering possible initiatives aiming at fostering the development impact of remittances, two aspects should be kept in mind from the very beginning: (i) remittances are private monies; and (ii) remittances are much more than financial flows.

Since 2009, the International Monetary Fund (IMF) considers remittances being composed of two components in their Balance of Payments Statistics: (1) ‘compensation of employees’ and (2) ‘personal transfers’.<sup>130</sup> As such, remittances remain private capital or in-kind flows and no recipient household in ACP countries can be obliged to use its private monies for the development of the country. Remittances are not a substitute for States’ responsibility to promote development, provide employment opportunities and guarantee satisfaction of basic needs to its own population. National development should not be pushed by ACP countries’ governments by motivating its nationals to emigrate in order to increase remittances inflows. They are not a substitute for public flows such as official development assistance (ODA) targeted at the poorest parts of societies, debt relief or foreign direct investment (FDI) in the private sector.

Furthermore, remittances do not just concern financial transfers, but can include other kinds of transfers by migrants. So-called “social remittances” refer to a wide range of contributions – such as innovative ideas, networks, knowledge, political values, policy reforms, and new technological skills, etc. – transferred by migrants and diaspora members to their country of origin both temporarily or permanently.

One area of intervention concerns the collection and analysis of remittances data. Despite the overwhelming attention granted to remittances, data collection still faces several shortcomings (IFAD, 2007). Capacities of national statistical offices need to be enhanced, data collection and sharing of information requires better coordination at national level (within the central bank and among different national entities) and with major

ACP destination countries. Household surveys on remittances can help to learn more about informal flows and sending patterns and eventually lead to adapted policy development. Examples include the Benin-led proposal for an International Migrant Remittances Observatory for Least Developed Countries (LDCs) and the Africa Institute for Remittances. More technical tools, such as the T21 model, can produce different scenarios for different policy options<sup>131</sup> (IOM, 2009b).

Another area includes initiatives aiming at facilitating the transfer of remittances mainly by providing access to money transfer channels, promoting financial literacy programmes and fostering informed decisions through information campaigns. Regulating financial operators involved in remittance transfers including banks and new service providers such as mobile MTOs, should be strengthened with a view to decreasing the costs of sending money (Irving et al., 2010). Self-regulation of the remittance service providers (RSPs), such as through an international remittances costumer charter,<sup>132</sup> can help to promote transparent markets and adequate consumer protection – especially as mistrust in financial institutions is often cited as reason for remitting informally – and is easier to implement than statutory regulation (Fortescue, 2009). Such initiatives should take into account as access to formal channels can be particularly problematic for specific migrant groups. For instance, legislative provisions requiring migrants to provide documentation on their legal status in the host country oblige migrants with irregular status to find somebody able to send on their behalf. Women tend to remit higher parts of their salary and more regularly, and spend more on health and education, thus access to financial services and financial tools should be tailored to these specific needs.

Other activities aim at providing information on how to use remittances channels. A good example for financial literacy is the project implemented by IOM with the bank BANPRO in Nicaragua, where 4,000 people benefit from a personal financial educational session on the importance of remittances, budgeting, savings, credit and insurance. Raising awareness between migrants on operators and costs of money transfers are offered by different websites comparing costs such as the World Bank website comparing the costs of transfers in USD (<http://remittanceprices.worldbank.org>). Transfer-costs-comparison websites seems to be most reliable if the information is provided directly by the consumers rather than the institutions

(for instance [www.sendmoneypacific.org](http://www.sendmoneypacific.org), [www.mandasoldiacasa.it](http://www.mandasoldiacasa.it)).

Electronic transfers such as the extend mobile technology from domestic to cross-border remittances set up by Kenyan diaspora members offering domestic and international mobile transfer services,<sup>133</sup> represent a good example of innovative practice trying to overcome obstacles in accessing formal transfer channels. Every fourth person in Kenya saves on their mobile phone through the M-PESA service operating domestically in Kenya (Central Bank of Kenya and FSD Kenya, 2009), which indicates the great potential to increase savings for the 'unbanked' part of the population. Efficient ways are needed to link money transfers to the existing banking system. On the one hand, being a relatively new service, transfers through mobile phone networks need to be adequately covered by regulations to counter money laundry. On the other hand, Anti-Money Laundering and Combating the Financing of Terrorism (AML-CFT) laws often hinder formal remittance flows as they are not clear to remittance service providers and create confusion (Mohapatra et al, 2010).

Linking remittances to financial products represents a third area of intervention. The key challenge is to identify products that can be attached to an international money transfer leading to a win-win situation with both sides benefitting from the transaction. Cooperation between private actors and public authorities can help to create a more sustainable relationship with financial institutions by, for instance, linking remittances to housing loans, like the Banque Commerciale du Burkina (BCB Burkina Faso) and the Banque de l'Habitat du Mali (Alvarez, 2009). Home countries can offer investment information and create attractive portfolios like the Senegalese Caravane des PME (SME mobile unit; IOM, 2009a) and the diaspora investment website of the Government of Cape Verde (<http://ie.ic.cv/>). Other options include the provision of savings accounts, pension funds and microfinance products, as recommended for Timor-Leste (Shuaib, 2008; Alvarez, 2009). In Cape Verde the special Savings Account for Emigrants offers higher interest rates to emigrants investing or buying in Cape Verde (IC, 2006). It is estimated that having a savings account in the origin country can increase remittances by up to 25 per cent (Orozco, 2011).

Diaspora engagement by channelling remittances into community projects is another area requiring particular attention by ACP countries. Important initiatives

promote community development by pooling together remittances, such as 'hometown associations' (HTAs) of Haitian migrants in the United States of America or local infrastructure development in the Senegal River Valley in West Africa stretching across Guinea, Mali, Mauritania and Senegal (Bakewell, 2009; Ghosh, 2006). Other forms of diaspora contributions to their origin country and communities include the recognition of market and trade opportunities, including of nostalgia goods; investment in capital markets (such as deposit accounts, securitization of remittance flows, transnational loans, diaspora bonds, diaspora mutual funds and micro-insurance); diaspora tourism; donations; volunteering returns and advocacy roles, such as through voting from abroad (Newland, 2010). Social networks, supporting the traditional transnational networks of migrants, play an increasingly important role. Diaspora contributions go beyond remittances and include the transfer of knowledge, skills, ideas and technology, diaspora bonds and other options for diaspora engagement should be strengthened (Newland, 2010; Mohapatra et al, 2010).

## VI. CONCLUSIONS

In conclusion, one should first of all stress that remittances remain private monies and that they should neither replace government's responsibility to foster national development nor serve as a substitute for official development cooperation. Policies and programmes on migration and remittances should be based on the protection of human rights and be tailored to the needs of both men and women as their sending patterns and transfers needs vary.

Secondly, to enhance the potential development impact of South-South remittances and the contributions of diaspora members from and in ACP countries, it appears of upmost importance to promote data collection efforts leading to more evidence-based policy making as well as to develop innovative practices maximizing the outcomes of remittances' initiatives for the benefit and wellbeing of all ACP nationals.

Finally, as the impact of remittances on human development greatly depends on an enabling political, economic and legal environment, both governments and the international aid community should give more attention on how to foster existing institutional capacities in ACP countries.

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## 2. THE DEVELOPMENTAL EFFECTS OF MIGRATION AND REMITTANCES: EXPERIENCES OF CHINA'S COASTAL AREAS

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### ABSTRACT

*Based on recent experiences of China's coastal areas, especially those of Fujian Province in China, this paper explores the links between migration and development of source areas, and the roles of remittances in such links. The paper examines some major characteristics of recent migration-related development processes in the coastal areas of China, including the important role of overseas Chinese and non-mainland Chinese<sup>134</sup> in linking the hometowns to the global networks, the importance of migrant business networks, the enthusiasm of international and cross-border migrants from the coastal areas of China in sending remittances to and investing in their hometowns, and the adoption of certain local development strategies to bring the developmental potential of migrants into full play while avoiding the negative effects of migration such as the development of the "culture of migration". The paper suggests that the experiences of overseas Chinese and non-mainland Chinese in the coastal areas have important implications for policy making regarding migration and the development of migrant source areas, and can be shared by other migrants and their places of origin.*

### I. INTRODUCTION

In recent years, "forge the link between migration and development" (GCIM, 2005: 30) has re-emerged as a major issue attracting increasing attention. This is particularly the case for migrant source areas. Contrary to the conventional pessimistic views on the effects of migration on source areas, studies have increasingly demonstrated that migration can play much bigger and more positive roles in the development of source areas; However, there is also increasing evidence

suggesting that the realization of such roles depends on whether there are right conditions; if conditions are not right, migration can also have negative effects such as "brain drain" and the development of a "culture of migration" (GCIM, 2005: 29) causing over-dependence on migrant remittances. Thus, exploring ways to maximize the positive developmental effects of migration while minimizing its negative effects on the source areas, and identifying conditions under which such results of migration can be achieved, are important tasks for both academics and policy makers in the field.

The experiences of China since the 1980s are of great significance in this regard, and deserve close examination. Observers have now noted that overseas Chinese and Chinese in Taiwan Province of China, Hong Kong (China) and Macao (China), who are or whose ancestors were migrants, have played important roles in the tremendous development of mainland China's coastal areas in the last three decades (e.g. Hugo, 2003; Zhu, 2003; Newland and Patrick, 2004). The significances of these developmental effects of migration in China are particularly reflected in the following two characteristics of the migration-related development process since the late 1970s.

First, examining the international literature on the effects of migration on source areas, one can find that the role of remittances in the development of source areas occupies a central position (Newland and Patrick, 2004), and less has been done on diaspora's roles in linking places of origin to the global networks in terms of investment, production and trade. China's experience since the 1980s suggests that the latter is of great importance. Since the 1980s investments in mainland China made by migrants from it has been enormous, suggesting the need of going beyond the approach focusing on migrant remittances, and the importance of examining migrant transnational networks and their links with migrant places of origin.

The role of remittances in China's coastal areas should be also examined in such a context. As will be demonstrated by case studies later, remittance investment, although in small amount, played crucial roles in the early stage of development of China's coastal areas, and offers new perspectives for a better understanding of remittance roles in migrant sending areas.

Second, migration- and remittance-related development in China has been achieved under some conditions not well explored in other migrant sending areas and inadequately examined in academic research and policymaking. One of such conditions has been the adoption of local development strategies similar to those of "development from below" advocated in the 1970s and 1980s (Zhu, 1999). These strategies have been important not only in bringing the developmental potential of migrants into full play, but also in avoiding the negative effects of migration such as the development of the "culture of migration" mentioned earlier. This offers a new perspective complementing existing studies focusing on macroeconomic, administrative and legal environments in the source areas.

Based on recent empirical evidence from China's coastal areas, especially its Fujian Province, this paper attempts to explore the developmental implications of migration and remittances for migrant source areas in the context of the above two characteristics. Fujian Province is one of the major source areas for international and cross-border migration from China. It is estimated that the number of overseas Chinese originating from Fujian Province is more than 10 million, accounting for a quarter to one third of the total number of overseas Chinese; the number of international migrants from Fujian Province from the late 1970s to the late 1990s amounted to around half a million, accounting for one third to half of all international migrants from mainland China during the same period (Zhu, 2001). The province is the hometown of 1.23 million Chinese living in Hong Kong (China) and Macao (China), and the ancestral home of 80 per cent Taiwanese compatriots. The paper will mainly draw on the experiences of this province to shed light on the above-mentioned migration, remittances, and developments issues, focusing on the above two characteristics of the migration-related development process.

## II. FROM REMITTANCES TO INVESTMENT: CHINESE DIASPORA'S ROLES IN THE DEVELOPMENT OF THEIR HOMETOWNS

One of the major successes of China since the 1980s has been attracting enormous amount of foreign investment. During the period 1985–2008, actualized foreign investment<sup>135</sup> in China amounted to US\$ 898 billion (China State Statistical Bureau, 1986–2009). By the end of 2009 China has ranked as the top developing country in attracting foreign investment for 18 years consecutively. Various sources suggest that overseas Chinese and non-mainland Chinese have been the major source of foreign investment in mainland China, and have made major contribution to the above success. The OECD estimate shows that the investments from overseas Chinese in mainland China accounted for 45 per cent of its total FDI in 2004 (GCIM, 2005: 30). Chinese statistical data suggest that in the period 1985–2008, investments from Hong Kong (China), Macao (China) and Taiwan Province of China accounted for 47.85 per cent of the total foreign investment in mainland China (China, State Statistical Bureau, 1986–2009). The correlation between the top 10 countries in terms of the number of overseas Chinese from Fujian and the top 10 countries in terms of the source of foreign investment for Fujian Province in table 11 reflects this important role of overseas Chinese and non-mainland Chinese to some extent, although cautions should be taken in interpreting the table that such correlation is affected by other socioeconomic factors, and that foreign investments from Hong Kong (China), Macao (China) and Taiwan Province of China are not included in table 11.

Studies at the regional level, such as that done by the author in Jinjiang and Fuqing Municipalities of Fujian Province for the period 1979–1996 (Zhu, 1999: 166–170), shows clearly that the sources of foreign investment in China are closely related to the distribution of overseas Chinese and non-mainland Chinese originating from it. In both places, Hong Kong (China) ranked the first as the source of foreign investment. This is not only because many foreign investments from overseas Chinese and non-mainland Chinese were made through Hong Kong (China), but also because Hong Kong (China) itself was a major destination of migration from the two places,

**Table 11. Top ten countries in terms of number of overseas Chinese from Fujian and actualized investment in Fujian**

Number of overseas Chinese from Fujian (000s)									
Malaysia	Indonesia	Philippines	Singapore	United States	Myanmar	Thailand	Japan	Viet Nam	Canada
2,873	2,472	1,607	1,410	413	3,302	236	182	119	62
Actualized investment from the country, 1979-2004 (000s, US\$)									
United States	Singapore	Japan	Philippines	United Kingdom	Malaysia	Indonesia	Germany	Canada	Thailand
3,594,670	1,650,450	1,099,430	1,057,110	746,170	514,110	263,630	229,910	188,090	170,700

Sources: Compile from Fujian Economic and Social Statistics Yearbook (2004). Fujian Statistical Yearbook (2006), and <http://www.fjxy.com/hrst/28.htm>.

especially Jinjiang. Apart from Hong Kong (China), Taiwan Province of China and the Philippines ranked as the second and third most important sources of foreign investments for Jinjiang. This is closely related to the facts that there were one million Taiwanese with Jinjiang origin, and that 69 per cent of the nearly 1 million overseas Chinese from Jinjiang or of Jinjiang origin were living in the Philippines. Similarly, Indonesia ranked as the second most important source of foreign investment for Fuqing, and this is closely related to the fact that among the 268,365 overseas Chinese who were from Fuqing or of Fuqing origin in early 1990s, 73 per cent of them were living in Indonesia. Case studies on various overseas and non-mainland Chinese investors, including both business tycoons in Fuqing and small business owners coming back from Hong Kong (China) to invest in their hometown Jinjiang, suggest that their links to their ancestral areas played an important role in their decision to invest in mainland China. Studies in Fuqing municipality show further that through their business networks around the world, overseas Chinese and non-mainland Chinese have helped to attract more foreign investors, including large consortia such as Samsung, Siemens, Toyota, Shell, and BHP, which had no previous links to Fuqing (Zhu, 2000).

Fujian is not the only province with overseas Chinese and non-mainland Chinese as the major source of foreign investments. Studies in other south-eastern provinces of China also demonstrate that these provinces are the major sources of out-migration to other parts of the world, and that this has been an important reason for the influx of foreign capital into these provinces (Lin and Liu, 1998: 1). Thus it is not a coincidence that during the period 1985-2003, the amount of actualized foreign investment

in the coastal region accounted for 83 per cent of the actualized foreign investment of US\$ 506 billion in mainland China. Although such concentration of foreign investment in this region may be attributed to many factors, including its favourable location, the fact that this region is the places of origin of most overseas Chinese and Chinese in Hong Kong (China), Macao (China) and Taiwan Province of China is an important reason. These investments have not only contributed directly to the economic growth, but also provided both technology transfer from and marketing channels to the outside world, linking the coastal region closely to the rest of the world (Lin and Liu, 1998: 48-50).

China's international standing as a remittance recipient is less impressive than its performance in attracting foreign investment. This is particularly evident when China and India are compared in terms of the relative roles of investment and remittances in the two countries. As noted by Newland and Patrick (2006), direct investment from Chinese diaspora was "twenty times the volume of India's" whereas "Indian remittances were seven times the Chinese in the 1990s". Although there may be problems in the accuracy of such a strong contrast due to data reliability, there is no doubt that "diaspora relations with the mainland [China] follow a business model with investment as the main vehicle" (Newland and Patrick, 2006). However, this does not mean that remittances have not been important in China's development since the 1980s. On the contrary, overseas Chinese remittances have served as important initial capital in the early stage of development in the coastal areas, as will be detailed in the next section. In this sense, remittances have paved the way for the influx of foreign investment from overseas Chinese and non-mainland Chinese into China's coastal areas, and the latter can



be regarded as the continuation of remittance-based development. This remittance-investment connection, together with its developmental effects, is also an important characteristic of the developmental roles of overseas Chinese and non-mainland Chinese in their hometowns.

In summary, the development of China's coastal areas since the 1980s has been closely related to the international and cross-border migration from China, including that of overseas Chinese and Chinese in Hong Kong (China), Macao (China) and Taiwan Province of China in the past. These migrants have contributed to the development of their hometowns through their remittances, investments and other business activities in their hometowns, with direct investment as the main vehicle. Thus, international and cross-border migrants have served as active agents in linking their hometowns to the increasingly important global networks of investment, production and trade. These important roles of international and cross-border migrants should be greatly promoted, and their experiences can be shared by other migrants and their places of origin.

### **III. FACILITATING THE POSITIVE AND AVOIDING THE NEGATIVE EFFECTS OF MIGRATION FOR DEVELOPMENT: THE ROLES OF MIGRANT BUSINESS NETWORKS AND LOCAL DEVELOPMENT STRATEGIES<sup>136</sup>**

The active role of overseas Chinese and non-mainland Chinese in the development of their hometowns have been facilitated by some favourable conditions. As pointed out by some observers, government policies that create an economic environment conducive to local investment are critical for the productive use of remittance and active role of migrants in the development of source areas (Massey et al., 1998: 272-4). Furthermore, like other foreign capital, investment of overseas Chinese and non-mainland Chinese in their hometowns is not without any negative effects, and need to be dealt with effectively so that such negative effects can be avoided. It is beyond the scope of this paper to give a comprehensive review of Chinese government policies towards foreign

investment, especially those from overseas Chinese and non-mainland Chinese. However, a review of some case studies in this respect in Fujian Province, especially its Jinjiang and Fuqing Municipalities (Zhu, 1999; 2000; 2002; 2003), two major source areas of international and cross-border migration from China, will contribute to the understanding of this issue.

Evidence from case studies in Fujian Province at the macro-level suggests that in addition to the generally healthy macroeconomic environment of low inflation and reduced economic uncertainty, which encourage productive rather than speculative investment (Massey, et al., 1998: 273), a friendly environment has been created for foreign investment since the late 1970s, especially the late 1980s. Foreign investment has been increasingly used as a means of overcoming the shortage of domestic funds and of improving management, productivity and competitiveness, and of increasing employment. It has been greatly encouraged by the government and by local authorities.

Various measures have been taken to attract foreign investment, including the setting up of special economic zones and technological and economic development zones. These offer many economic incentives such as tax holidays and low tax rates for investors. Other measures include delegating the approval authority for foreign investment projects to local governments and simplifying the relevant approval procedures. Governments at various levels have also made great efforts to develop and improve infrastructure to boost the confidence of investors for positive returns (Zhu, 1999: 101-48). These measures have certainly played important roles in attracting investment from overseas Chinese and non-mainland Chinese.

These Government policies and measures at the macro-level are however still not complete explanations of successful remittance uses and investment from overseas Chinese and non-mainland Chinese. Case studies from Fujian Province suggest that more attention should also be paid to the following two aspects at the regional and community levels.

#### **A. The Roles of Migrant Business Networks**

The first aspect is related to the role of Chinese migrant business networks in the development of their hometowns. As pointed out elsewhere, the

enthusiasm of overseas Chinese and non-mainland Chinese in investing in their hometowns is closely related to one of their culturally-underpinned business practices, i.e. the construction of business networks facilitated by their ethnic, historical and cultural links to each other and to their hometowns (Zhu, 1999: 166-70). In fact, it has been found that the business expansion of overseas Chinese and non-mainland Chinese into mainland China frequently uses old family and dialect ties (East Asia Analytical Unit, 1995: 176). Business networks are seen as an essential part of their success in China as well as in other parts of the world (Tracy, 1996: 8).

Evidence from both Fuqing Municipality, where the investment has been dominated by large overseas Chinese consortia, and Jinjiang municipality, where investment has been dominated by smaller investors, many of whom were from Hong Kong (China), are consistent with the above findings. As mentioned earlier, Fuqing is a famous hometown for overseas Chinese in Indonesia, and some of them are very successful in business. These overseas Chinese maintained close links with their hometown, and had already made donations to help develop public undertakings and industry in Fuqing, before the 1980s. Such links readily transformed into business ties when China adopted reform and open-door policies, especially when China's State Council promulgated "the regulations encouraging foreign investment" in October 1986. In April 1987, invited by the local government of Fuqing County and initiated by Liem Sioe Liong, an Indonesian business tycoon from Fuqing, a "Fuqing-origin overseas Chinese delegation" visited Fuqing, and decided to establish the "Rongqiao Industrial Development Zone".<sup>137</sup> This paved the way for the subsequent large-scale foreign investment in Fuqing, and the establishment of more development, investment and industrial zones (Zhu, 1999: 136-141; 166-70). In Jinjiang, many enterprises started in the form of family workshops through compensation trade and intermediate processing of goods, and the family ties between local residents and their overseas relatives played an important role in such business activities (Zhu, 1999: 124-131). Thus, making full use of the international migrants' ethnic, historical and cultural links to their hometowns and connecting them to the migrant business networks are important aspects in achieving full benefits of migration for development.

## B. The Role of Local Development Strategies

The second aspect is related to the fact that the productive use of remittances and efficient investment from overseas Chinese and non-mainland Chinese have been facilitated by certain development strategies of migrant source areas. They have incorporated some key elements of the "development from below" approach (Stöhr and Taylor, 1981: 1-2), i.e. its emphasis on labour-intensive and small-scale industries and the use of appropriate rather than highest technology, to effectively mobilize local natural, human and institutional resources of migrant source areas, especially at the early stage of development. One objective of this approach has been to enable remittances and foreign investments to benefit the majority of community members. In the meantime, these development strategies have avoided some important limitations of the conventional development from below approach, especially its one-sided targeting of agricultural development and its isolated approach towards the global and domestic economic systems. Therefore, they have been more effective in achieving development goals (Zhu, 1999: 192-3). Township and village enterprises (TVEs) have played important roles in implementing such strategies, and served as important agents for the effective uses of remittances and investments from overseas Chinese and non-mainland Chinese.

Again the case of Jinjiang municipality can explain this point. Before the late 1970s when China adopted reform and open-door policies, rural surplus labour was a serious problem in Jinjiang. There was an urgent need to develop non-agricultural activities to absorb rural surplus labourers, but this was constrained by the lack of investment and poor availability of bank credit, as in other developing regions (Zhu, 2002). However, as mentioned earlier, Jinjiang is one of the major hometowns of overseas Chinese and Chinese in Hong Kong (China), Macao (China) and Taiwan Province of China, many of whose dependants have received overseas remittances on a regular basis. Many of them have been able to save some money, and to build a house. At the level of the individual family, these funds have not been significant, and not enough for the establishment of enterprises. But putting them together creates a different story.

In the late 1970s, a form of family workshops jointly established by several households, most of which had connections with overseas Chinese and non-mainland Chinese, emerged in Jinjiang and became the forerunners of TVEs. The remittances from these overseas Chinese and non-mainland Chinese, although small, constituted an important part of the initial capital for the TVEs, and their unused houses became the first workshops for these enterprises. One study shows that at this early stage of development, funds from overseas Chinese dependents accounted for 55 per cent of the 55 million Yuan initial capital for the establishment of private enterprises in Jinjiang, and 82 per cent of these enterprises used unused houses of overseas Chinese dependents (Li and Pan, 1999). Apart from their collaborative and household-based nature, these enterprises were mostly engaged in labour-intensive industries, such as sewing, garment, textile, shoes, toys, electronic, metal goods and utensils, construction materials and food industries. In 1993, more than 90 per cent of the newly established foreign funded enterprises were still concentrated in these industries (Yu, 1999). Enterprises in these industries only required limited initial funds, infrastructure and labour skills. Therefore, they were able to overcome the constraints of lacking investments, infrastructure and skilled labour in rural development, as commonly encountered in developing countries.

In the following years these enterprises flourished in Jinjiang, and benefited a large number of community members due to the many employment opportunities created by the labour-intensive industries, and created a solid basis for further development of more advanced TVEs, which have become major receivers of investment from overseas Chinese and non-mainland Chinese since the late 1980s, accounting for 64 per cent of foreign funded enterprises in Jinjiang in 1988. The establishment and development of foreign-funded TVEs have in turn greatly improved their production techniques and equipment, and enhanced their competitiveness, especially their export capability. In the above process, governments at various levels played important roles by giving the family workshops and TVEs the legitimate status and administrative support, and promoting their development in more places not only within but also outside Jinjiang. Such stories are not restricted to Jinjiang; they can also be found in many places in China's south-eastern provinces, especially Fujian and Guangdong Provinces (Zhu, 2000; 2003).

The case study from Fuqing may further compliment the case of Jinjiang to illustrate the importance of suitable development strategies in migrant source areas in achieving positive and avoiding negative effects of migration for development. As mentioned earlier, investment in Fuqing has been dominated by large overseas Chinese and other consortia with large investment projects. This kind of investment was more capital-intensive, technically more advanced, and spatially more concentrated, and had the advantage of bringing more and faster physical changes in the forms of factory buildings, roads, and residential and commercial centres in the areas concerned, compared with the case of Jinjiang.

However, as such investments and the accompanying development model were not based on local resources and labour force, and as they were more capital intensive than labour intensive, they were not as effective in providing employment opportunities as TVEs in Jinjiang. This is reflected in the fact that during the period of 1990–1994, although there was massive influx of foreign investment in Fuqing, the percentage of the rural labour force engaged in the agricultural sector only decreased by 3.2 points, and nearly 50 per cent of the economically active population in Fuqing was still engaged in agricultural activities in 1994. In contrast, in Jinjiang only 16 per cent of the labour force was still engaged in the agricultural sector in the middle of 1995, according to the 1995 one per cent sample survey of the population. The development in Fuqing even had the negative effects of creating landless and unemployed farmers whose land was taken for use by foreign-funded enterprises. Such farmers were not able to find new employment opportunities, as the foreign-funded enterprises were not employment-oriented and had much higher skill requirements for the labourers (Zhu, 2000).

The contrast between the development models of Jinjiang and Fuqing has had important impacts on the trends of international migration from the two places. Despite the enormous foreign investment and physical changes in Fuqing, it has continued to be a major source of international migration, as not everyone can find opportunities there. However, much fewer people have emigrated overseas from Jinjiang since the 1980s, as most people feel that they have plenty of opportunities to explore locally and domestically. This difference in emigration is reflected in the fact that in the 2000 census, 33,821 people were recorded as “used to live here but working or studying abroad

and therefore temporarily not having local household registration" in Fuqing, compared to only 1,070 such individuals in Jinjiang.

Some major source villages of emigration in Fuqing have developed a "culture of migration" mentioned earlier, as a result of which villagers place excessive hopes on moving abroad to earn their living, while neglecting in situ development of their hometowns. As observed by Thunø and Pieke (2005) in their field study village in Fuqing, 680 persons, which was equal to one third of the village population and most of which were young, migrated overseas by early 2004, leaving only old people and women with young children at home. Although remittances from the emigrants had improved villagers' lives, they had been mostly used in the construction of family houses and daily consumption, and even the expansion and renovation of ancestral halls and temples in the migrant source villages, and have not been as effective in promoting productive investment as in Jinjiang, thus producing less developmental effects in migrant hometowns.

The comparison of the cases of Jinjiang and Fuqing suggests the importance of suitable development strategies for the source areas. Having said this, it has to be emphasized that proper application of the above experiences in the circumstances of other migrant source areas should be based on a more complete understanding of the experiences of the two places.<sup>138</sup> In fact, despite their general success, the strategies adopted in Jinjiang had their own disadvantages at the earlier stage of development in that its development was too dispersed and unfavourable to achieving economies of scale and agglomeration, and had negative environmental consequences. In this sense, the strategies of Jinjiang could be complemented by some of the positive elements of the case of Fuqing, such as its more concentrated nature in spatial development. More general and solid development strategies for migrant source areas could be formulated on such a basis.

#### **IV. CONCLUSIONS AND POLICY RECOMMENDATIONS**

The experiences of China, particularly those of its Fujian Province presented in this paper, support the view that migration can have important positive developmental effects on migrant source areas, as evidenced by the fact that overseas Chinese and non-

mainland Chinese contribute to their hometowns with remittances and investments, new skills and ideas, managerial experience, technological transfer and market connections, which they gain from the places of destination and bring back to their hometowns. However, migrants' roles in their source areas are not always positive. Evidence from this paper also suggests that if not handled properly, migration could drain away the most needed human resources of migrant hometowns, and create a culture of excessive dependence on migration and remittances, with in situ development being neglected in migrant source areas and the sustainability of migration-related development not being able to be maintained. The examination of China's experiences in this paper provides some important knowledge basis for policy making to maximize the positive effects while minimizing the negative ones, and the following policy recommendations can be made on such a basis.

First, one valuable piece of experiences from China's coastal areas is related to the roles of diaspora as the main source of foreign investment for their hometowns, and the way in which the productive uses of remittances from international and cross-border migrants at the earlier stage paved the way for investment-based development at the later stage, both of which have greatly strengthened the roles of migration and remittances for the development of migrant source areas. This suggests that while efforts should be made to attract migrant remittances, policy measures should also be taken to transform the remittances-based development into the investment-based development, and to attract the inflow of larger amount of investment from migrant-turned entrepreneurs originated from migrant source areas.

Second, while efforts should be made to create favourable environment for the productive uses of remittances and productive investment, certain development strategies emphasizing labour-intensive and small-scale industries and the use of appropriate rather than highest technology should be adopted at the early stage of development to mobilize local resources, especially local labour force, and to benefit most local community members.

Third, policy measures should also be taken to facilitate the establishment and successful operation of the links between migrants' business networks and their source areas, and to facilitate diaspora's roles in linking their places of origin to the global networks in terms of investment, production and trade.

Finally, while the experiences of China's coastal areas can be shared by other source areas of international and cross-border migration, more collaborative and comparative research among different countries and

regions should be promoted for achieving a better and more complete understanding of the related issues, so that the experiences of different source areas can be properly drawn on and made better use of.

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### 3. REMITTANCES, DEVELOPMENT AND THE ROLE OF SOCIAL NETWORKS: THE CASE OF EL SALVADOR

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#### I. INTRODUCTION

Migration and remittances have become structural factors for the functioning of the economy and the society of many countries as they provide long term social and economic stability. This implies that any variation in these factors will affect the economic performance of a country but also the escape valve of demographics over employment and other social services.

Data about migration flows of El Salvador is self-explanatory. There are about 2.7 million Salvadorians living and working in the United States of America representing about one third of the total population of the country. Linkages between migrants and the local population are evidenced by the high level of demographic dependency of the local population with respect to their migrant relatives. Moreover, the recent economic crisis has affected the level of employment in key destination countries generating a decline in the number of deported people but without totally stopping flows. For example, the number of deported Salvadorians from the United States of America and Mexico was 32,000 people in 2008 and 50,000 people in 2007. During 2009 and 2010 the number of deported Salvadorians has been estimated at about 35,000 annually.

Remittances sent by relatives still are the main source of external finance for the El Salvadorian economy, representing 16 per cent of the GDP and about 70 per cent of total exports. Remittance also represent about one third of Salvadorian families' income. Most of this income is used for household support. This extraordinary income has pushed the aggregated demand and the stabilization of main macroeconomic variables. In this context, it is evident that without this external income source the economy of El Salvador would collapse or at least will be at great risk.

Without doubt remittances are an essential income for the economic and social sustainability for El

Salvador. The level of importance of remittances in the country is so high today that they have transformed the nature of the economy and the society. Without remittances flows the development of the country will be in jeopardy.

#### II. REMITTANCES AND THE ECONOMY OF EL SALVADOR

The world and the Central American region are suffering from the deepest economic crisis of the last 50 years. The deterioration of certain macroeconomic indicators has been so significant that in many cases they have gone beyond any previous projections made by governments and multilateral institutions. It is foreseen that this situation could even become worse in the short term and that it can only be effectively reversed if fundamental reforms to multilateral economic institutions and to the role that governments have played so far are taken. For example, it is expected that Latin America growth rate will only recover by 2011, mostly driven by current increases in commodity prices. The gross domestic product (GDP) of El Salvador is expected to grow 2.5 per cent by 2011.

While the impacts of the economic crises have affected all social sectors in developed countries, the effects over migrants have been particularly severe. For migrants, changes in the labour market of destination countries are of summit importance as they affect employment prospects and their level of social insertion and stability. Also, changes in the labour market have a direct impact over the amounts and frequency of transfers made to families and local communities, affecting the functioning of the economies of countries of origin. In this regard, the performance of labour markets during periods of crisis is crucial for migrants in destination countries but also for the economy of countries of origin. Thus, it is not

**Table 12. El Salvador: Amount of remittances received and growth rates**

Year	Amount of remittances	Growth rate
2000	1,750.70	21.6
2001	1,910.50	8.4
2002	1,935.20	13
2003	2,105.30	8.1
2004	2,547.60	17.4
2005	3,017.20	15.6
2006	3,470.90	13.1
2007	3,695.30	6.1
2008	3,787.67	2.5
2009	3,464.9	-8.6
2010	3,539.0	2.2

Source: Prepared by the author with data from the Banco Central de Reserva of El Salvador

surprising, that increasing labour restrictions, higher unemployment, reductions of working hours and lower income significantly affect the most vulnerable and especially migrants. In this context, migrants are usually last type of workers to be hired and the first ones to be fired.

The recession of the economy, job losses and migratory restrictions have generated significant remittances decreases for El Salvador during the last ten years as we can see in table 12.

According to Table 12, remittances declined by 8.6 per cent in 2009. In 2010, remittances went back to growth at a rate of 2.5 per cent. However, data shows that growth rates of remittances started to decrease since 1996, several years before the initiation of the crisis, breaking a phase of continuous growth in remittances inflows. It is foreseen that growth rates in the future will be even lower. However, the remittances decline was not as high as many predicted as many migrants were willing to restrict consumption and saving before reducing the amounts transferred.

Remittances are fundamental external source of income that currently benefits more than 381,726 families in the country. Spending by recipient families has become, in consequence, a key factor in the constant expansion of the internal aggregated

demand in El Salvador.<sup>139</sup> However, this constant expansion has not been accompanied by similar increases in national production. This phenomenon is another symptom of the Dutch disease that has been present in the Salvadorian economy since the beginning of the decade and which has allowed levels of total consumption by the families that are higher than the gross domestic product (GDP) as shows in the figure 10.

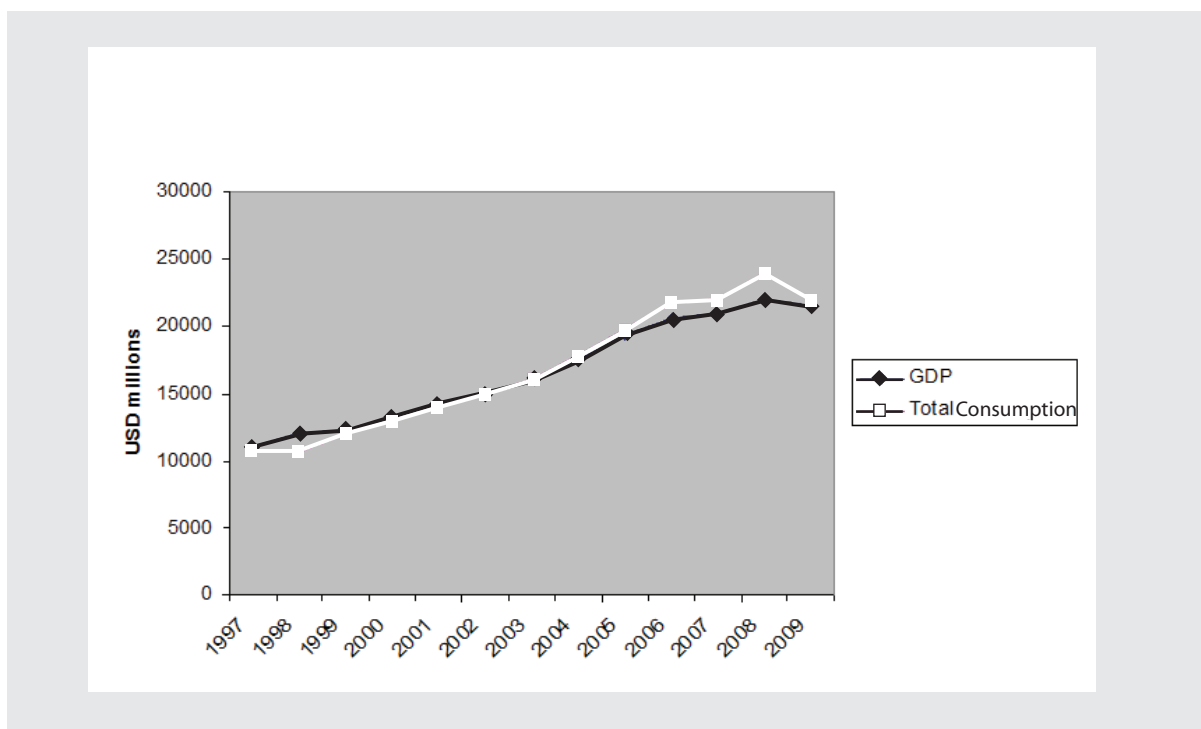
### III. REMITTANCES AND DEVELOPMENT: SOCIAL NETWORKS AS A KEY COMPONENT

Social networks<sup>140</sup> have been of vital importance for the expansion of migratory flows. They have facilitated the transfer of necessary resources that maintain migratory flows and have supported the insertion of migrants in the labour markets of destination countries such as the United States. Linkages between migrants and those who stayed at home are essential for keeping and expanding migratory movement in both directions and for ensuring monetary transfers and shared ownership of property. Social networks facilitate the circulation of resources, goods, values, and social behaviour generating more stable migratory flows and a sustainable increase of remittances flows and small investments.

It can be argued that the true nature of the remittances flows comes more from key features of social interaction that from their economic nature as they are monetary expressions of social and emotional relations. At the end remittances are transnational salaries being spent in both destination and originating countries. Probably, that is why senders tend to avoid their use for investment for productive purposes.

Social networks expand and evolve with time, transforming themselves in complex social systems that capture main migratory flows. As those networks become enrooted, migratory flows start to depend more on them than on any other factors such as unemployment, under-employment, poverty and lack of opportunities. At this stage, migration becomes a self-generated and relatively autonomous phenomenon from the original factors that initiate the migration flow process. In fact, in reality, without the coverage of social networks migration becomes an



**Figure 10. GDP vs total consumption (El Salvador)**

Source: Prepared by the author based on data from the Banco Central de Reserva of El Salvador.

almost impossible quest. The more social networks consolidate, the more migratory flows stabilize and remittances increase. That is why, even though the United States labour market is contracting, unemployment increasing, real income declining and migration policy is becoming increasingly stringent; migratory flows and remittances transfer have not suffered from a significant deceleration and have recently come back to growth.

Based on recent experiences, it can be affirmed that during the most difficult times of the economic crisis, social networks could change in at least two ways. In the first place, it can be expected that relationship between social groups evolve. They are not initiated any more by migrants and end in relatives in home countries (so called unidirectional relations) but on the contrary, they become interactive on both sides and form stable bidirectional relations. This basically means that decisions on the amounts, use and destination of remittances including social investments (such as health or education) are not taken any more by migrants alone but they are the consequence of negotiations between migrants and their relatives in

home countries. Under this scenario, the responsibility over the generation of resources for household support will not be exclusively left to migrants but also to families in home countries. This situation implies a more active role of recipient families is seeking alternative sources of subsistence by entering into the local labour market or by starting financial or productive activities. Such activities could include, depending on the case, having a more active stand with regard to saving and investment and assigning a higher share of remittances to education and health with the ultimate effect of improving the value of local human capital within the migrant family group.

In the second place, the motivation of the senders might change. Some authors<sup>141</sup> consider that migrant send remittances to their families as a consequence of two main motivations: altruism and self-interest. Under the first type of motivation, remittances transfers are destined to satisfy the basic needs of families in the home country and the probability that those remittances are invested in other types of activities is very low. Under the second motivation, remittance transfers are sent to satisfy the needs of both the

migrants and the home country family. Due to self-interest, migrants seek to improve their own financial situation in parallel to assist their family by allocating higher amounts for savings or investing in business activities.

In this regard, the altruistic motivation has a fundamental impact on the current spending of families and the self-interest motivation has a significant effect on savings and investments by both the recipient family and the senders. Nevertheless, in reality, motivations on these two extremes are unusual as in most cases they are mixed in nature.

When remittances are transferred during normal times, it is expected that altruistic motivations would prevail as the economy in the destination country is usually under expansion, there is an attractive labour market and senders can make transfers for household spending without major difficulties. On the contrary, when the economic context in the destination country is under crisis, self-motivation tends to dominate the thinking of migrants and families, generating a preference towards a higher allocation of remittances transfers to savings and investment. It is therefore quite probable that as a consequence of a difficult economic situation, a contraction of the labour market or when the resource base of the sender is at risk; there is a higher predisposition to also send higher amounts of money to save and invest. Some anecdotal evidence indicates that during times of crisis and in countries where remittances are important source of external income and migration flows are common, there is usually a higher level of economic activity, a higher need to find a job less superfluous spending and lower levels of financing for altruistic or cultural activities (e.g. lower contribution to Salvadorian civil society organizations, local festivals or infrastructure). Similarly, migrants use existing savings not only to assist their families but also to address their own needs in the destination countries causing a change in the direction of remittances flows from origin to destination country.

In sum, social networks and motivations behind remittances under a crisis context tend to change their nature and transform themselves into more complex and dynamic bidirectional relationships. In this regard, further development of social networks becomes highly dependent on mutual interests between senders and recipients. During times of crisis self-motivation becomes a predominant feature. Such a motivation shift can become a summit opportunity

to rebuild the productive fabric and to relaunch local development, especially in areas where there is high migration ratio among the local population. Such a proactive stand could assist the local population in better facing any reduction in remittances flows and to generate higher levels of resilience vis-à-vis external sources of income.

## IV. SOME POLICY PROPOSALS

The challenges brought by continuous declines in remittances flows in a particular country allow a new phase in their evolution. Such a new phase can imply a significant opportunity to redirect the country towards self-generated development and growth. So far increases in remittances have pushed for higher levels of local consumption without parallel increases in saving and investment. Some policy options that countries have at hand to seize such an opportunity include the following:

- **Increase the current levels of saving and investment.** As remittances motivations shift towards self-interest and become less altruistic, the probability to dedicate a share of income received to increase saving and investment is higher. Such a change in the use of remittances could contribute to reduce the symptoms of the Dutch disease and make remittances instruments of local economic growth.
- **Reshape the local productive fabric.** A drop in remittance flows can generate incentives to improve the productive fabric and expand local markets, especially in geographical areas with high migration ratio and high levels of remittance inflows. Decline in remittance flows will reduce the share of external income and will motivate local families to seek alternative sources of income, usually within the local market. This change in attitude can transform several family members from income receivers into income earners or into small investors.
- **Increase investment in the development of human capital within local families.** A share of remittances has been traditionally directed towards investment in the education and training of the recipient families. During times of crises and as a consequence of reductions in remittances, it is important to assume responsibility over the education and skills building as instruments for

development. In this regard, it is proposed to create an education “insurance scheme” where senders can directly contribute and which would strengthen the capacities of the local families and communities of origin.

- **Encourage investment transfers by migrant communities.** Migrant communities, especially those that are longstanding, have shown interest in investing amounts higher than \$7,000 annually. These transfers represent an important source for potential capital accumulation and investment in productive activities. Many of these transfers do not necessarily fall into the concept of traditional remittances and they can be considered as foreign direct investment. The State should provide technical support to migrants and recipients willing to invest. This technical support should encompass all necessary technical information for starting business, developing of business plans and the identity niche markets.
- **Facilitate access to financial services by receiving families.** Up to now most policies surrounding remittances transfers have not been

accompanied by a solid financial inclusion plan for recipient families or by sufficient financial education that allow them to access and use of available financial and saving instruments. There is a wide range of lessons from international experiences that show a positive correlation between higher levels of financial education by recipients and higher levels of access and use of financial services.

- **Incorporate the migrant community in local development efforts.** Migrants and their resources are underused factors to promote development. If properly harness they can become a driver of local development and productive capacity. They have to be considered as key factors and external allies and not just a source of additional income. Migrants are also part of El Salvador and as such there is a need to open spaces for their participation in development efforts. This means that migrants’ views need to be taken seriously into consideration in the building of new development models.

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## 4. OVERSEAS FILIPINOS' REMITTANCES: A POLICY FRAMEWORK TOWARDS MORE EFFICIENT FLOWS, FINANCIAL INCLUSION AND PRODUCTIVE USES

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### I. INTRODUCTION

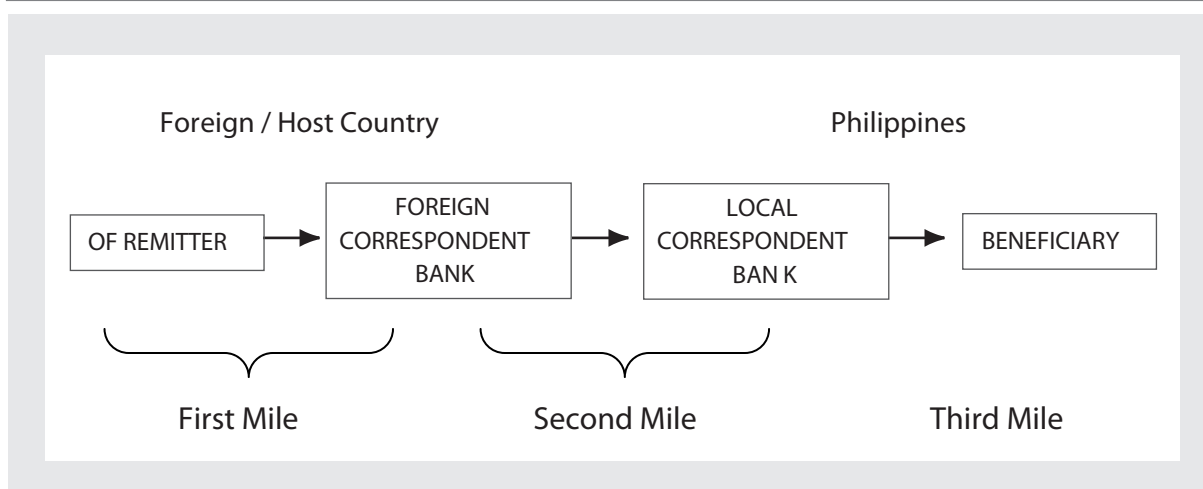
Overseas Filipinos (OFs) play a vital role in the Philippine economy. The stock of OFs has averaged 7.7 million over a decade (1997-2007), with more than 50 per cent of them classified as overseas Filipino workers (OFWs).<sup>142</sup> Inflows from OFs' remittances increase the foreign exchange supply available in the financial system to fund the foreign currency requirements of the economy and spur consumption expenditures. This, in turn, creates demand and expands domestic production. OFs remittances contribute significantly to economic growth, with its ratio to gross domestic product (GDP) at 10 per cent in 2010.<sup>143</sup>

The remitted portion of OFs' income coursed through banks amounted to US\$18.8 billion in 2010, or a year-on-year growth of 8.2 per cent.<sup>144</sup> The sustained growth was due to strong global demand for professional and skilled OFWs, as well as the improved capture

of remittance flows. OFs' increasing access to formal channels for remitting funds to Philippine beneficiaries can be traced to innovative products and wider remittance network of financial institutions. By 2010, only about four per cent of total remittances, from a high of about 25 per cent in 2001, were coursed outside the banking system.<sup>145</sup>

The Bangko Sentral ng Pilipinas (BSP) clearly recognizes the impact of OF remittances on economic development. The BSP faces the challenge of improving the financial landscape through which funds are transferred from the remitter in the first mile up to the designated beneficiary in the last mile. Specific initiatives are being undertaken to harness the benefits of remittances by: (i) encouraging the continued flow of remittances, and (ii) mobilizing funds for lending and other productive activities.

Figure 11. Remittance flow process



## I. IMPACT ON PHILIPPINE DEVELOPMENT AND POVERTY ALLEVIATION

Studies have indicated that an increasing proportion of OF families have been increasingly saving and investing. More families of overseas Filipinos are becoming conscious of the need to invest and/or save parts of the funds that they receive from abroad. An ADB study in 2004 has shown that OFWs have huge potential for savings mobilization.<sup>146</sup> The BSP's quarterly Consumer Expectations Surveys (CES) have also revealed that apart from expenditures on food, clothing and housing, a rising percentage of Filipino households directed their remittances to savings, investment, education, medical care, and purchase of real estate.<sup>147</sup> In particular, survey results showed that OFW households that allocated their remittances to savings substantially increased, from only 7.2 per cent in the Q1 2007 survey to 43.7 per cent in Q4 2010, while those that used remittances for investments mirrored the same trend, from 2.3 per cent in Q1 2007 to 5.8 per cent in Q4 2010.

In a study using household survey data from the Philippines, it was observed that a 10 per cent increase in the remittance receipts of households reduces their poverty rate by 2.8 percent.<sup>148</sup> The decline in poverty is attributed to increases in economic activity due to higher remittance flows to households of migrant workers as well as to spillover effects of these transfers to the overall economy.

Available literature on child labour also shows that positive income shocks allow households to reduce child labour and increase school attendance. The same conclusion has been observed in the case of remittance-receiving households in the Philippines. Higher remittances thus yield higher human capital investment. OFWs often cite the need to provide good education for their children as one of the primary

reasons why they seek more lucrative jobs abroad.

Many OFWs have expressed their intent to return to the Philippines after they have saved enough to start a small business. Yang found that a rise in remittance income increases the household's entrepreneurial activities by 2 percent.<sup>149</sup> Moreover, as the amount of remittances increase, Filipino households are inclined to venture into more capital-intensive businesses like manufacturing, transportation and communication.

## III. POLICY DIRECTIONS

The Philippine Government authorities strive on improving the overall environment for OFs through sound regulatory actions and integrated advocacy programs that promote the efficient use of remittances. Specific agency mandates designate the Department of Labour and Employment and its attached agencies, Philippine Overseas Employment Administration, Overseas Workers Welfare Administration, and National Reintegration Centre for OFWs to address the recruitment, deployment, training, well-being and reintegration needs of OFWs in host countries.

For its part, the BSP has identified specific initiatives that are anchored on four main principles of: (1) enhancing transparency and competition in the remittance market; (2) improving access to financial services; (3) encouraging OFs and their families to increase savings and investment; and (4) promoting financial learning among OFs and their beneficiaries.<sup>150</sup>

To encourage a smooth and efficient remittance flow process, the BSP seeks to reduce remittance fees and facilitate fund transfers by enhancing market competition as well as the remittance channels. The BSP addressed the need to achieve a higher level of transparency in the global remittance industry through a circular requiring financial institutions to disclose the charges for their remittance products and services,

Table 13. Survey results on OFW households (in per cent)

Use of OFW remittances	2007 Q1	2008 Q1	2009 Q1	2010 Q1	2010 Q2	2010 Q3	2010 Q4
Savings	7.2	14.0	40.0	50.4	38.0	43.0	43.7
Investment	2.3	1.8	5.9	5.8	7.2	7.0	5.8

Source: BSP Consumer Expectations Survey (2010).

including the classification of costs, delivery time to beneficiaries, description of products, and directory of remittance network. This disclosure requirement was further enhanced by the BSP when it launched a country-specific OFW portal in its official website, linking the users to the financial institution's relevant information on remittances.<sup>151</sup>

Philippine banks continue to devise specialized systems that promote more efficiency in terms of faster delivery time and lower service fees. Modern information technology plays a major role here, through electronic banking products or alternative mechanisms for sending money. Several modes of remittances include internet-based remittance, use of mobile phones for performing financial transactions utilizing the short messaging system (SMS) or text feature of cellular phones for balance inquiry, fund transfers, withdrawals (cash-out), and interconnection of automated teller machines. Some banks also offer card products with debit features to facilitate remittances with financial institutions as issuers and telecommunication companies as service providers. These new modes generally cost less both for the remitters and the beneficiaries. Estimated time to remit is also faster, with the growing trend towards real time fund transfers.

The BSP also launched a joint project with banking associations to establish a local clearinghouse for a credit-to-other-banks mode of remittances. In the past, local receiving banks hired the services of courier firms to expedite the feedback of beneficiary banks in crediting remittance transactions. The receiving banks pay the couriers a range of Php100-Php550 for their delivery service to other banks. The project involved electronic settlement of overseas Filipinos remittances through the BSP-Philippine Payments and Settlements System (PhilPaSS), which will charge fund transfers to beneficiaries' accounts maintained at other domestic banks at Php5.00 for each transaction (for total remittances up to Php500,00.00), or 90 per cent lower than the current fee structure.

To mobilize funds for more productive activities, the BSP seeks to promote wider access of households to the products and services of financial institutions. A balanced approach is clearly important, where policies work on both ends – from the viewpoints of the financial sector and the beneficiary households. A fine example is the BSP's grant of foreign currency deposit unit (FCDU) license to qualified rural and cooperative banks. Prior to March 2006, only universal, commercial

and thrift banks were allowed to operate FCDUs. With the regulation authorizing rural and cooperative banks to open FCDU accounts, overseas Filipinos' beneficiaries in the countryside now have the option to maintain FCDs as an alternative to immediately exchanging the funds received into pesos.

Another initiative in improving access of Filipino households to services offered by formal financial institutions, including those residing in remote areas, focused on the customer identification requirements in line with the know-your-customer policy applied by the covered institutions. The number of identification cards (IDs) required from clients has been effectively eased over a span of two years – from three IDs down to one valid photo-bearing ID issued by an official authority. The term official authority was also expanded to include the government, its political subdivisions, government-owned and -controlled corporations, and private entities registered, supervised or regulated by the BSP, Securities and Exchange Commission, and Insurance Commission. Policy refinements were subsequently added, with the BSP allowing the use of passports issued by foreign governments as valid IDs of OFs, who have adopted foreign citizenship and are on vacation, to engage in local financial transactions.

The BSP has launched an integrated economic and financial learning program (EFLP) that aims to promote greater awareness and understanding of relevant issues to help the public acquire the knowledge and develop skills needed to make well-informed economic and financial choices and decisions. It embodies the BSP's thrust to promote inclusive and proactive economic and financial education among its stakeholders, the underlying philosophy of which is that a well-informed citizenry is a more effective partner of the BSP in maintaining an effective monetary policy and a stronger and secure banking and payments system. A knowledgeable population is also able to contribute more to economic development, maximizing benefits from the opportunities that development brings.<sup>152</sup>

The EFLP consists of the following component programs that have specific target audiences and main messages: (1) Conference on Gearing up for External Competitiveness; (2) Public Information Campaign on the Role of the BSP in the Philippine Economy; (3) Financial Learning Campaign (FLC) for Overseas Filipinos and their Beneficiaries; (4) Users' Forum on BSP-Produced Statistics; (5) Financial Education Expo; and (6) Financial Learning Seminar for Microfinance Clients and the Unbanked. In addition,

the BSP distributes teaching guides to more than 60 per cent of the country's elementary schools, as part of a nationwide Financial Education Campaign for Schoolchildren in partnerships with other government agencies and the private sector. Regular visits and program surveys for schoolteachers are conducted to assess the programme's effectiveness.

As part of the EFLP, the local and international FLCs which were launched in 2006 and 2008, respectively, impart financial education among the OFs and their families/beneficiaries. The FLCs aim to promote savings and investments among OFs and their beneficiaries by informing them of alternative uses of their remittances, including savings, investments in financial instruments and micro-entrepreneurial ventures. Also discussed in the whole-day forums are issues on consumer rights, financial products and services, and the resolution of consumer complaints, including those pertaining to remittances of migrants and OFWs. Methods of

instruction include audiovisual presentations, lectures, interactive games, and testimonies. To date, the BSP has conducted 46 local FLCs for 5,541 participants across the country, as well as 14 international FLCs for 2,179 OFs in 8 host countries.<sup>153</sup>

## **IV. CONCLUSION**

The main challenge for policymakers is to provide the proper financial infrastructure and mechanisms for the migrant workers to efficiently remit their income to their beneficiaries. As the remittance flow process is continually enhanced, more funds could be channelled to households' foreign exchange savings, microenterprise activities and other alternative financial instruments, which could ultimately achieve the Millennium Development Goal of alleviating poverty.



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## 5. MAXIMIZING THE DEVELOPMENT IMPACT OF REMITTANCES IN GHANA

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### I. OVERVIEW

Remittances are one of the most visible and tangible contributions of migrants to their home countries. The money sent by migrants to their families pays for food, education and health care, easing day to day hardship and poverty contributing to the achievement of the Millennium Development Goals (MDGs).

For many economies, remittances represent a sizeable and stable source of funds that sometimes exceed official aid and financial inflows from foreign direct investment. According to the Migration Policy Institute's (MPI) Global Remittance Guide, officially recorded flows in 2009 totalled US\$414 billion worldwide, with more than three-quarters (US\$316 billion) sent to developing countries. In 2009, total net official development assistance (ODA) from members of the OECD's Development Assistance Committee was US\$119.6 billion.<sup>154</sup>

The global recession reversed a strong upward trend in remittances sent by migrants to their countries of origin. The 2009 officially recorded remittances were 6.7 per cent lower than that in 2008.<sup>155</sup> The World Bank projects that with improved economic prospects, remittances to developing countries will increase by 6.2 per cent in 2010 and 7.1 per cent in 2011.<sup>156</sup>

### II. THE CASE OF GHANA

In Ghana, remittances are an important source of foreign exchange, income and development financing to the economy. Remittances go a long way to contribute to poverty reduction. This is because quite a number of people depend on their relatives abroad for their feeding, school fees, medical bills and housing etc.

This paper will focus on remittances as captured in Ghana's Balance of Payments (BOP) Statistics. Remittances are mainly derived from two sources in the BOP framework; income earned by workers in

economies where they are not resident and transfers from residents of one economy to residents of another. Due to difficulty in capturing data on the former, remittances as used in this paper refers to personal transfers and current transfers to non-profit institutions serving households (NPISHs) and these two items fall under the latter category. These are mainly cash transactions captured through formal channels such as the banks and non-bank financial institutions or money transfer operators (MTOs).

### III. TRENDS IN REMITTANCES

Ghana's remittance flows have been growing despite a decreasing trend in remittance to GDP ratio. Notwithstanding the impact of the economic crisis, remittance flows are generally regarded as more stable than alternative capital flows. According the balance of payments data, private inward remittances accruing to individuals and NPISH increased from US\$1,287.05 million in 2004 to US\$1,970.39 million in 2008 before declining to US\$1,788.37 million in 2009. Private inward remittances as a share of GDP declined steadily from 14.5 per cent in 2004 to 11.7 per cent in 2009. It also exceeded official inflows, official FDI and private sector inflows during the same period. It must be noted however that in 2008, FDI inflows exceeded remittances. Remittances accounted for 52.2 per cent and 34.9 per cent of total external inflows in 2004 and 2009 respectively.<sup>157</sup>

Remittances in Ghana is grossly underestimated as a result of a large chunk of it coming in through informal channels – hand carriage, family and friends or networks of informal transfer agents. (See figure 12).

## IV. ORIGIN OF REMITTANCES

During the period 2004–2009, the dominant sources of remittances were the United States and Canada which on average accounted for 62.4 per cent of individual or personal remittances. The other sources were the United Kingdom (16.2 per cent), Europe (13.4 per cent), other economies (3.8 per cent), the Economic Community of West African States (ECOWAS; 2.6 per cent) and the rest of Africa (1.7 per cent) (see figure 13).<sup>158</sup>

On the whole, the value of total individual remittances fell from US\$1.55 billion in 2008 to US\$1.33 billion in 2009, reversing the upward trend recorded from 2006–2008 and reflecting the effects of the global financial crisis (see figure 14).<sup>159</sup>

## V. MAXIMIZING THE DEVELOPMENT IMPACT

Remittances inflow forms an important component of Ghana's BOP. Given that the Ghanaian economy depends so much on imports of goods than is exported, the inflows of private inward remittances help cushion our current account deficit. It is therefore an important tool in financing the gap in the overall Balance of Payments deficit.

Migrants' incentives to participate in home country development or reconstruction depend on the extent to which they feel they have a stake in their home nation as well as in the countries that host them.

The Government of Ghana has been proactive in highlighting the key role that the Ghanaian diaspora does and can play in national development. The Ghana Poverty Reduction Strategy (GPRS), the policy framework for supporting growth and poverty reduction in the short term, identifies the Ghanaian diaspora as a potential source of funds for the GPRS (Zan 2004).<sup>160</sup>

In Ghana, the issue of diaspora's contribution to national development was brought into the limelight following the Homecoming Summit launched by the Government of Ghana in 2001 in an attempt to woo Ghanaians living abroad to come home and invest in the growth of the local economy (Zan 2004).<sup>161</sup> The Summit identified the diaspora's contribution to national development in several key areas including the following:

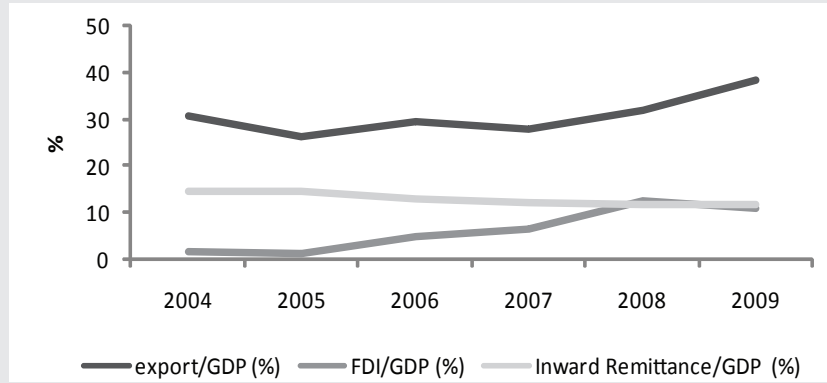
- As a potential market for non-traditional exportable items such as foodstuff and garments.
- As a source of finance capital for investment to develop the local private sector.
- As ambassadors for Ghana's culture – food, clothes, social life etc.
- As a source of modern knowledge and technical know-how for development, particularly information technology.
- As a link between Ghanaian communities and local foreign-based communities.

Since then there has been a number of forums to create awareness for Ghanaians to invest home with the most current one being the just ended United Kingdom-Ghana Invest Forum held in July 2010 in the United Kingdom which had as one of its themes remittances and raising capital through the diaspora. Having forums such as this to acknowledge the contribution of the diaspora to development can increase communication between the diaspora and government, potentially leading to a lasting partnership for development. Again it leads to building of trust if the current generations of migrants feel protected. This also brings to fore the enabling role played by government in introducing legislations such as dual citizenship and voting rights. The latter is still under discussion.

Beyond this, a number of diaspora groups (like home town associations, diaspora NGOs, churches etc.) have become involved in development efforts through their own initiatives by, for example, investing in community projects back home. Examples of the types of projects funded include water and sanitation, schools, hospitals, literacy programmes, training, charitable donations and supporting ad hoc projects and government-supported initiatives in their local communities. Some of these basic livelihood programmes are executed through public and private partnerships.

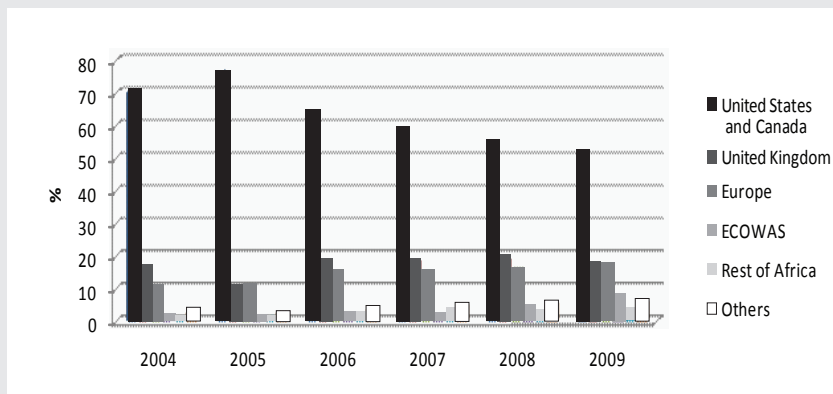
Diaspora bonds have been identified as a way of tapping into the vast wealth of the diaspora and there is indeed a huge potential to raise billions of dollars of new funding through it. In 2008, the Government of Ghana began the marketing of the Golden Jubilee Savings Bond to Ghanaian diaspora in Europe and the United States. The Golden Jubilee Savings Bond is a 5 year Government of Ghana bond issued in commemoration of Ghana's Golden Jubilee celebration. The main objective was to raise money for development projects in all 10 regions of Ghana.

Figure 12. Export, FDI and remittances as a percentage of GDP



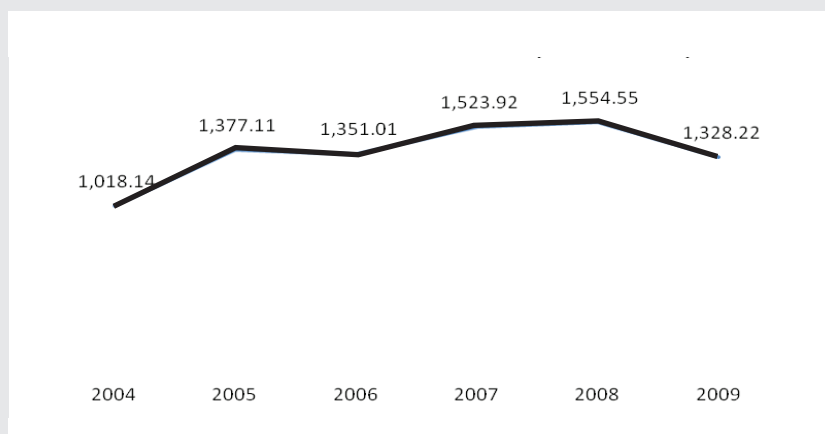
Source: Bank of Ghana (2010).

Figure 13. Sources of individual remittances



Source: Bank of Ghana (2010).

Figure 14. Individual remittances (US\$ million)



Source: Bank of Ghana (2010).

Government has also put in place several strategies aimed at supporting institutions and the business community as whole under the Financial Sector Reforms to deepen the scope of financial services, products and the payments system. The introduction of a Remittance Grant Facility which is a component of the Ghana-United Kingdom Remittance Partnership Project is conceived to reduce transaction costs and barriers to access for Ghanaian remittance senders and recipients. The facility has an initial amount of £1 million from the United Kingdom Government.<sup>162</sup>

The promulgation of Foreign Exchange Act 2006, Act 723 allows non-residents to maintain foreign exchange accounts with the banks. The accounts may be credited with transfers in foreign currency from abroad and from other foreign currency accounts and balances in these accounts are freely transferable. In view of this, the banks and non-bank financial institutions in Ghana have devised several investment packages or services that allow Ghanaians in the Diaspora to invest in managed funds, equity trusts, unit trusts and real estate investment trusts. For instance, Databank Asset Management,<sup>163</sup> a private institution, has introduced a specially designed investment instrument for Ghanaians living outside Ghana who have short, medium or long-term obligations to meet at home. It is a hybrid account which invests in various mutual funds and financial instruments in Ghana and other regulated markets in Africa.

In recent years, some Ghanaian embassies and foreign missions have tried to help Ghana's diaspora to direct their resources through more formal channels for national development. Examples include the 'A Dollar a month for Ghana' initiative by the High Commission in Sierra Leone, the 'Five Pounds No Balance Police' initiative by the High Commission in the United Kingdom to raise funds from the Ghanaian diaspora to purchase basic tools for the Ghana Police Service.<sup>164</sup>

## VI. THE WAY FORWARD

While these are innovative and commendable for facilitating the transfer of migrant/diaspora resources for national development, a lot more needs to be done to fully maximize the potential impact of remittances for development. Key challenges include enhancing access to formal remittance channels, increasing transparency of the process and reducing cost.

1. Given the importance of remittances in households' income and in light of the multiplier ef-

fects of remittances on production, income and employment, the Government of Ghana should have a remittance policy that aims at maximizing the impact of these flows on growth and development. A number of other migrant countries, including India, Egypt and Pakistan, and more recently, Latin American countries such as El Salvador, Guatemala, Honduras and Nicaragua already have remittance policies. These countries have devised mechanisms aimed at mobilizing remittances for investment through higher interest rates on term deposits, foreign currency denominated banking accounts, and tax incentives.<sup>165</sup>

2. It has also been argued that it is important to reduce remittance fees. Fees charged by the money transfer operators (MTO) and the banks are so high that migrants often resort to unofficial means to transfer money home. If the MTOs and the banks are able to cut down on their fees the amount of remittances transferred and captured through official channels would be expected to increase. Apart from the initial transfer fee charged by the MTOs, there is a hidden cost that is borne by the receiver of the funds in terms of exchange rate spread. The exchange rate offered by the banks or official channels are often lower than what pertains in the foreign exchange bureau or black market, as a result migrant workers are not encouraged to transfer funds through official channels. The government and international agencies should therefore encourage the development of easier and cheaper transfer systems wherever possible, so as to lower transfer costs and leverage remittances for maximum development.
3. There is also the need for transparency of remittance prices. The cost of sending remittances varies between markets and it is unclear to people using them. It is therefore important for the government or the central bank to undertake detailed research into remittance and payment system models to understand the mechanism governing the transfer of funds and establish transparency in the remittances market place, thereby reducing costs for the consumer and encouraging greater flow of funds.
4. The Central Bank needs to review and streamline its regulatory framework to embrace more non-bank financial institutions such as

the credit unions and micro finance institutions to play a greater role in money transfers. These institutions have a larger presence in rural areas and are a potential avenue for increasing the number of payout locations across the country and expanding access. In addition they provide related services to meet the financial needs of the rural communities.

5. Promoting financial literacy is known to transform the wealth of people who receive remittances into assets and savings. Information is therefore vital for consumers.

## **VII. CONCLUSION**

To fully realize the potential impact of remittances for development requires an effective collaboration

between all stakeholders. Government has to improve upon its own accountability and governance systems, crucial to building the confidence and trust of citizens at home and for the migrants to channel their resources through Government-endorsed channels.

Migrants and diaspora communities must also take responsibility for evolving their initiatives towards more stable, long-lasting and appropriate organizational forms that meet their needs. The private sector should take advantage of the enabling environment and facilities created to design products that would enhance increased use of formal channels of remittance inflows.

Last but not the least the Central Bank should establish the required supervisory structures that would ensure that that market development is not inhibited without compromising stability.

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## 6. THE SOCIOECONOMIC IMPACT OF REMITTANCES: THE CASE OF BANGLADESH

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### I. INTRODUCTION

Migration has been an important livelihood strategy for the people of Bangladesh. It has remarkable positive impact on social development and empowerment through skill transfer and by fostering many community development initiatives. Globalization, modern communications and transportation have greatly facilitated the migration. People move continuously seeking better economic opportunities, family reunion and humanitarian relief. However, Bangladesh has a long history of international migration. During British rule some people migrated for short-term to United Kingdom and also United States for trade and higher study. But after independence of Bangladesh in 1971, the flow of migration to other countries also increased. During mid-1970s due to oil exploration of Middle-Eastern countries, there was tremendous demand for skilled and unskilled workers. At the beginning of 1980s the flow of both short-term and long-term migration increased. International migration gives people the opportunity for higher income and better lives. The higher income of the migrated person not only changes his destiny, but has also improved the lives of his family in the home country.

Bangladesh like other South-Asian countries is a manpower surplus country with a combination of professional, skilled, semi-skilled and less-skilled labour force. Migration plays a vital role in the national economy mainly in two major ways; firstly it reduces unemployment and secondly migration results in remittance flows for the country. The migration has shown steady growth over the year that was favourable to the development of Bangladesh; as inflow of remittance has increased day by day. The links between migration and remittances are self-evident. Both have a strong correlation to poverty reduction in home countries. Remittance has become an important aspect for the developing countries

like Bangladesh for socioeconomic advancement. In Bangladesh, remittance plays a significant role to maintain balance of payment and foreign currency reserve. Remittance also has a great contribution in gross domestic product (GDP) of the country.

### II. PRESENT TRENDS OF MIGRATION FROM BANGLADESH

Bangladesh is considered as a resourceful country of a huge labour-force. About 60 million people constitute this vast reservoir of active manpower; fortunately Bangladesh is steadily turning her manpower into an asset through training and skill development with a view to meeting the needs of overseas employment. It is not possible for Bangladesh to absorb the full range of available less-skilled, semi-skilled, skilled and professional manpower within the country in an appropriate manner and hence it is needed to find employment opportunities abroad. There are also a number of foreign countries who are in need of importing manpower from other countries.

Currently two types of international migration occur from Bangladesh. One takes place mostly to the industrialized west and the other to Middle-Eastern and South-East Asian countries. Voluntary migration to the industrialized west includes permanent residents, immigrants, work permit holders and professionals. They are usually perceived as long term or permanent migrants. Migration to the Middle East and South-East Asia are usually for short term and that migrants return home after finishing their contracts of employment in the host countries.

However, overseas employment from Bangladesh started officially in 1976 with a modest number (6,078) of workers. Presently about 7 million Bangladeshi



workers are employed around 130 countries across the world, particularly in countries of the Middle East and South-Eastern Asian countries. Bahrain, Libya, Kuwait, Malaysia, Oman, Qatar, Saudi Arabia, Singapore and the United Arab Emirates are major destinations for Bangladeshi worker. Today, Bangladesh is considered as a good source of manpower. Information on the short term labour migrants who officially go overseas for employment is available with the Bureau of Manpower Employment and Training (BMET). Table 14 captures the flow of migration over different periods.

BMET has classified temporary migrant population into four categories. These are professional, skilled, semi-skilled and unskilled. Doctors, engineers, nurses and teachers are considered as professionals. Manufacturing or garments workers are considered as skilled; while tailor, mason, etc. as semi-skilled workers; housemaid, cleaner, labourers are classified as less-skilled (see figure 15).

### III. PRESENT TRENDS OF FEMALE MIGRATION FROM BANGLADESH

Poverty reduction has become the number one priority in development agenda of Bangladesh Government since long. One of the most important vehicles to reduce poverty is overseas employment. In every year, Bangladesh has been sending about half a million migrant workers and the country is receiving a huge

amount of remittances that contribute to our national economy. Along with male overseas jobseekers, recent trends indicate that the number of women overseas jobseekers has been increasing remarkably. About 1,500,000 overseas women workers have been sent to different countries from 1991 to 2010. It is noteworthy that overseas women workers were at 2.4 per cent in 2008, which increased to 5 per cent in 2010 (see table 15). However, this percentage could be increased if the existing workers were given need-based training and orientation about host country, its culture, language and life-style before their departure which could help them to be more skilled and effective.

### IV. REMITTANCE FLOWS TO BANGLADESH

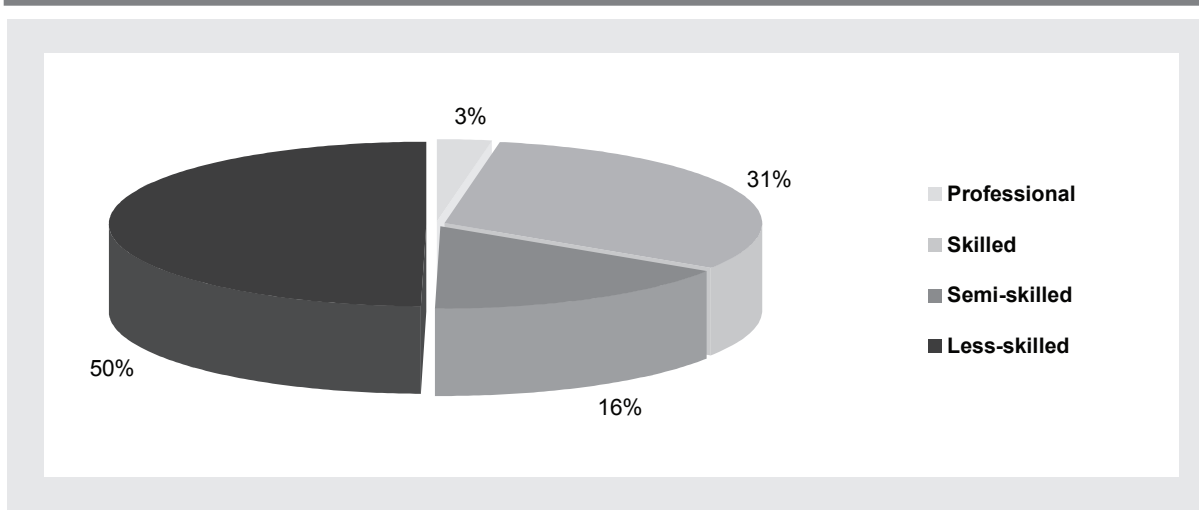
Bangladesh is considered as one of the major labour exporting countries of the world. Since independence over 7 million Bangladeshis went abroad. The cumulative receives from Bangladeshi migrants during 1976–2010 stood at around \$78.67 billion. Bangladesh maintained a healthy growth in remittances through the formal channel. The trend of remittance has accelerated in recent years from \$2.07 billion in 2001 to \$11 billion in 2010, an average growth of 43 per cent per annum, even in the global financial meltdown. The oil-rich Middle Eastern countries with more than 80 per cent of the total stock of Bangladesh migrants accounts for a lion's share of remittances.

**Table 14. Flow of migration from Bangladesh during the last ten years**

Year	Worker's Category				Total
	Professional	Skilled	Semi-skilled	Less skilled	
2001	5,940	42,742	30,702	109,581	188,965
2002	14,450	56,265	36,025	118,516	225,256
2003	15,862	74,530	29,236	134,562	254,190
2004	12,202	110,177	28,327	122,252	272,958
2005	1,945	113,655	24,546	112,556	252,702
2006	925	115,468	33,965	231,158	381,516
2007	676	165,338	183,673	482,922	832,609
2008	1,864	292,364	132,825	448,002	875,055
2009	1,426	134,265	84,517	255,070	475,278
2010	387	90,621	20,016	279,678	390,702

Source: BMET (2010).

Figure 15. Overseas employment by category



Source: BMET (2010).

Table 15. Overseas employment of female workers during the last ten years

Year	Name of the Country												Total
	Saudi Arabia	United Arab Emirates	Kuwait	Oman	Qatar	Bahrain	Lebanon	Jordan	Libya	Malaysia	Mauritius	Others	
2001	335	162	15	27	-	22	-	95	-	1	-	2	<b>659</b>
2002	827	217	18	14	-	30	-	104	-	2	-	4	<b>1,216</b>
2003	808	108	333	-	-	37	1	1,053	-	-	-	13	<b>2,353</b>
2004	3,133	3,241	1,773	60	-	1,058	-	1,883	-	-	25	86	<b>11,259</b>
2005	6,319	3,786	930	132	6	553	12	1,745	-	-	25	62	<b>13,570</b>
2006	7,358	7,355	589	629	3	232	743	518	-	1	468	149	<b>18,045</b>
2007	7,341	5,181	49	1,380	4	244	3,498	12	250	354	610	171	<b>19,094</b>
2008	4,144	5,902	-	276	3	173	7,948	201	25	1,091	801	278	<b>20,842</b>
2009	386	6,095	-	11	4	29	13,062	439	7	87	1,825	279	<b>22,224</b>
2010	44	7,111	1	18	3	57	15,116	2,136	185	16	2,695	324	<b>27,706</b>

Source: BMET (2010).

**Table 16. Yearly remittances statistics**

Year	Remittance	
	in billion US\$	in crore Tk.
2001	2.07	11,590.79
2002	2.85	16,484.53
2003	3.18	18,485.12
2004	3.56	21,286.52
2005	4.25	27,304.33
2006	5.48	38,366.56
2007	6.57	45,724.44
2008	9.01	61,587.83
2009	10.72	73,981.46
2010	10.99	76,505.93

Source: Bangladesh Bank (2010).

Saudi Arabia is the most important source of remittances. Its share is about 29 per cent of the aggregate remittances received in Bangladesh. The United States, which has seen a large inflow of migrants in recent years, is the second largest source, accounting for nearly 15 per cent of the total.

## V. INITIATIVES AND INCENTIVES FOR THE SMOOTH TRANSFER OF REMITTANCES

The Government and Bangladesh Bank have continued their efforts to encourage expatriate Bangladeshi nationals to send their hard earned foreign currency through official channels. Nowadays nationalized and commercial bank have established a strong network abroad for easy transfer of remittance to Bangladesh. As a result the flow of transferring remittance in Bangladesh through official channels is increasing day by day. To boost remittance flows, the Government has undertaken various initiatives. Different types of savings products like United States Dollar Premium Bond, Wage Earners Development Bond are offered for expatriate Bangladeshis. Moreover, tax holidays and tax exemptions are also provided to encourage remittance flow and utilize it for economic development. Additionally Commercially Important Persons (CIP) cards from National

Registration Bureau (NRB) cards and Privilege cards for expatriate Bangladeshis have been introduced to encourage greater flows of remittances.

## VI. REMITTANCES AND ECONOMIC DEVELOPMENT IN BANGLADESH

Remittances and economic development in Bangladesh can be broadly explained in two ways: the overall macroeconomic benefits of remittances and the microeconomic benefits at the household level.

### A. Macroeconomic Benefits of Remittances

The major benefit arising from migration of workers has been the worker's remittances. They have not only made a significant contribution towards the GDP (13.56 per cent), but also to meet the balance of payment's deficit. The remittance of migrant workers stands at \$10.99b in 2010. The amount of remittances is 6 times the level of ODA and 11 times that of FDI. This amount occupies the highest level of net foreign exchange earning sector of the country. Remittances play a crucial role in the Bangladeshi economy today.

It has helped to ease our foreign exchange constraint, stabilizing the exchange rate and allowing Bangladesh to import much needed raw materials, intermediate goods and capital equipment. Comfortable reserves of foreign exchange have also contributed to overall macro stability and have reduced aid dependency, along with rapid growth of our export sector. Remittance increases with the expanding migration process and accelerating movement of people for overseas employment market. Some study predicts an ambitious achievement for the flow of \$30 billion remittance by 2015 in Bangladesh. To attain this level of remittance, skill development training and more women participation in the migration process are two essential factors among others (see table 17).

### B. Microeconomic Benefit at Household Level

The remittance has significant microeconomic impact at household level. The macroeconomic impact of

**Table 17. Socioeconomic impact of remittance at community and household levels in Bangladesh**

Major Indicators	Positive Impact of Remittances
Nutrition	Allow families of migrants to meet basic nutritional needs
Living condition and housing	Living condition and housing improved
Education	Invest for education of children
Health care	Increased investment for health care
Social security	Social security for elderly people increased
Investment	Increased investment in business or income-generating activities

Source: Modified from De Bruyn (2005).

remittances at the household level partially depends on the characteristics of the migrants and hence the recipients i.e. whether they constitute the rural poor, or the more educated sectors of the population generally residing in urban areas. The majority of Bangladeshi migrants abroad are unskilled, and originate from rural areas (de Bruyn 2005). Unskilled workers take jobs in Saudi Arabia, the United Arab Emirates and Malaysia and, to a lesser degree, the United States and the United Kingdom as domestic staff and labourers. Saudi Arabia alone accounts for around 43 per cent of migrants out of Bangladesh. According to official statistics, from 1976 to 2004, 46 per cent of migrants were unskilled and lacked access to land and resources.

The poverty profile of migrants is looked at more closely in the social appraisal. However, the evidence clearly shows that most short-term migrants abroad are poor and from rural areas. The poorer the household, the more impact or benefits remittance income can have on alleviating poverty. In the short-term remittances help loosen the budget constraints of their recipients, allowing them to increase expenditures on both durables and non-durables products, and provides them with protection against negative income shocks. Remittances are cited as making up around 60 to 70 per cent of recipient poor households' total income (Bruyn 2005). Investment in health and education is

valuable for long-term economic growth and poverty reduction. Studies conclusively found that migrant families invested more in these areas (Murshid et al 2002). The most comprehensive review of the literature on remittances in Bangladesh (Bruyn 2005) lays out a number of benefits that are listed in table 17.<sup>166</sup>

## VII. POVERTY REDUCTION POLICIES AND MIGRATION

Adams and Page (2003) empirically demonstrated that international migration can be positively linked to a decline in the number of people living in poverty. A World Bank report (2007) recently linked 6 per cent poverty cut in Bangladesh in 2006 to migration. During the year 2004, 11 per cent poverty reduction in Nepal was attributed to migration (Gurung and Adhikari, 2005). All these lead us to argue that in order to reduce poverty migration should be linked to global strategic development planning such as Poverty Reduction Strategy Papers of various countries, development agenda of donor organizations and more importantly national development planning of different countries. Following are some of the areas where poverty reduction strategy can take the help of migration.

**Table 18. Utilization patterns of remittances in Bangladesh**

Purposes	Remittances used (%)
Food and Clothes	20.45
Medical Treatment	3.22
Child Education	2.75
Agricultural land purchase	11.24
Homestead land purchase	0.96
Home construction / repair	15.02
Release of mortgage land	2.24
Taking mortgage of land	1.99
Repayment of loan (for migration)	10.55
Repayment of loan (other purpose)	3.47
Investment in Business	4.76
Savings/Fixed deposit	3.07
Insurance	0.33
Social ceremonies	9.07
Gift/donation to relatives	0.94
Send relatives for pilgrimage	0.92
Community development activities	0.09
Sending family members abroad	7.19
Furniture	0.69
Others	1.05
<b>Total</b>	<b>100</b>

Source: Siddiqui, Tanseem (2003). Migrant worker remittances and Microfinance in Bangladesh.

## VIII. INITIATIVES BY THE GOVERNMENT OF BANGLADESH

The Government of Bangladesh with 160 million people is faced with a challenge to use the human resource effectively. The Government of Bangladesh has recognized labour migration as a potential tool for the socio-economic development of the country. Efforts to manage migration have been strengthened and introduced digitized migration management

system in order to maximize benefits from migration and minimize the harmful effects.

To emphasize more on migration sector, the Bangladesh Government has established the Ministry of Expatriates' Welfare and Overseas Employment to ensure welfare of the expatriate workers and increase of the overseas employment. The Ministry has been rendering ceaseless efforts in enhancing the flow of remittance and to provide equal opportunity of the people of all areas of the country for overseas employment and ensuring overall welfare of the migrant workers. BMET works under the close guidance and supervision of the Ministry with a view to expediting employment opportunity and to ensure the rights of migrants. BMET is also responsible to regulate the entire migration process and is engaged for overall planning and implementation of the strategies for proper utilization of manpower of the country.

Government has taken a massive program to enhance and strengthen the training program for producing more technical and skilled manpower as per the demand of the overseas labour market. BMET has been playing an ever-growing role in human resource development by providing vocational skill training through its institutional capacities. 37 Technical Training Centres (TTCs) located in different districts of the Country and one Bangladesh Institute of Marine Technology (BIMT) are now in operation under the BMET. Two years regular course in 45 different basic engineering trades including 4 years Diploma in Marine Engineering and Shipbuilding Engineering are now being offered in these centres. Beside regular courses, many other modular short-term skill development courses are also conducted in these TTCs. The total output of these existing TTCs (both regular and special courses) stands at about 50,000 skilled persons per year. More 35 training centres are going to be established within next 5 years.

With a view to reducing the cost of migration, the ministry is planning to establish "Migrant Welfare Bank" for giving loan with simple interest to the aspirant workers going abroad and providing financial assistance to the returnee migrants to invest in productive activities.

The Government has also arranged signing bilateral agreement and memorandum of understanding (MoU) with some destination countries to facilitate remittance flow along with other issues on the protection of rights of the migrants.

## **IX. CONCLUSION**

Remittances from migrants have positive impacts on poverty reduction and development in originating countries, mostly developing ones, substantially contributing to the achievement of the Millennium Development Goals. These positive impacts become greater when remittances can be saved and invested in infrastructures and productive capacity. Government policy measures could induce such use. Significant barriers to migration and remittance transfers need to be addressed in order to harness opportunities for development and poverty reduction, including through easing financial transfers, setting appropriate

incentives, improving policy coherence in migration and remittance policies, and facilitating the temporary movement of people.

Poverty reduction has become an immediate agenda of the government of Bangladesh that it has taken up the national strategy for Accelerating of Poverty Reduction (NSAPR-II) in order to combat it urgently. One of the most important vehicles for reduction of poverty is migrant workers' remittances. It is to be noted that remittances are one of the major sources of foreign currency earning of Bangladesh and play a significant role for the balance of payment as well as economic development of the country.

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## **7. MOBILIZING THE USE OF REMITTANCES TOWARDS POVERTY REDUCTION AND ECONOMIC AND SOCIAL DEVELOPMENT THROUGH GOVERNMENT INITIATIVES: THE PHILIPPINE EXPERIENCE**

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### **I. INTRODUCTION**

Compared to its ASEAN neighbours, the Philippines has more extensive experience of sending manpower abroad. Numerous policies and programs, crafted by the government, reflect this reality. Realizing the potentials of migration for work, the Philippine government pursued its overseas employment program with the general objective of achieving economic and social benefits for Filipino migrants, their families, communities and the country as a whole.

Being one of the major labour-sending countries in the world, the Philippines ranks high in the list of top receivers of remittances from overseas. From a macro angle, foreign remittances have significantly contributed to keeping the country's foreign exchange reserves afloat and have become a constant source of income, which even supersedes direct foreign investments and overseas development assistance funds received by the Philippines.<sup>167</sup> On the micro angle, the flow of remittances enabled overseas Filipino workers (OFWs) and their families an increased access to information, goods and services.

However, the full developmental potentials of these remittances for the country have yet to be tapped. Studies have shown that much of these remittances have gone to consumption expenditures with small percentage going to more developmental channels like investments and business operations. Previous government efforts have been attuned mainly to increasing the volume of remittances and promoting the use of formal channels (i.e., banks, remittance agencies) for sending remittances. Consequently, there have been limited initiatives to encourage the use of remittance for sustainable, productive and

developmental undertakings for wealth creation and to maximize remittance inflows for developmental purposes.

This paper presents: (a) some facts and figures on Philippine migration and remittances; (b) impact of remittances to Philippine society; (c) various government initiatives, including that of the financial regulator, taken to channel remittances into developmental undertakings; and (d) some issues and recommendations on maximizing the gains of overseas employment and ensuring the productive mobilization of remittances, which optimistically shall incite social and economic developments and, subsequently, reduce poverty incidence in the Philippines.

### **II. PHILIPPINE MIGRATION AND REMITTANCE FACTS AND FIGURES**

Filipinos are in more than 200 countries. Filipinos are scattered worldwide, establishing their presence in at least 215 countries either as permanent migrants or OFWs (overseas Filipino workers). OFWs are those engaged in remunerative activity in foreign country. They include both the documented or temporary workers and the undocumented or irregular workers. Permanent migrants are mostly in developed countries like Australia, Canada and the United States. OFWs, meanwhile, are in the Middle East, Asia and Europe.

According to stock estimates released by the Philippine Commission on Filipinos Overseas (CFO), there are an estimated 8.5 million overseas Filipinos worldwide as of December 2009.<sup>168</sup> Of this number,



4 million were permanent migrants, 3.8 million were temporary workers while 0.6 million were irregular workers.

More than one million OFWs a year. In 2009, over 1.42 million Filipinos found employment outside the Philippines through overseas employment agencies and government-sponsored employment programs. Such figure dwarfs the few thousand annual deployments of the 1970s when the country's overseas employment program was just starting. The record high deployment of overseas Filipino workers makes the Philippines among the largest migrant-sending countries that include China, India, Mexico and Pakistan. It also certainly reflects the continuing high demand for Filipino labour in the global labour market.

Land-based workers dominate departing OFWs. Of the 1.42 million who left for employment in 2009, land-based workers took the lion share with 1.09 million deployment figure or 76.8 per cent of total deployment. On the other hand, 0.33 million sea-based workers left the country during the same year posting a 23.2 per cent share in the deployment pie. This number of deployed seafarers is the largest in the world affirming the top one position of the Philippines in the supply of mariners.

The Middle East and Asia are top OFW destinations. OFWs continued to flock to their traditional destinations. These include Saudi Arabia, the United Arab Emirates, Hong Kong (China), Qatar, Singapore, Kuwait, Taiwan Province of China, Italy, Canada and Bahrain. These top ten destinations accounted for 79.40 per cent (0.87 million) of total land-based deployed workers.

OFWs came from all walks of occupations and skills. Deployed OFWs came from practically all walks of life. Official statistics on newly-hired land based workers reveal four major skills classifications of OFWs:<sup>169</sup>

1. Production and related workers, which include labourers, plumbers, sewers, welders, wiremen, foremen, carpenters and construction workers, among others (35.5 per cent of total new hires for 2009);
2. Service workers such as household workers, caretakers, cooks, waiters and bartenders, among others (41.7 per cent of total new hires for 2009);
3. Professional, technical and related workers,

which include nurses, engineers, doctors, teachers, scientists, and pilots (14.4 per cent of total new hires for 2009);

4. Others, which include administrative, managerial, clerical, sales and agricultural workers, among others (8.5 per cent of total new hires for 2009).

Over US\$17 billion remittances in one year. Despite the global financial crisis (GFC), remittances from overseas Filipinos have remained robust in 2009. Around US\$17.3 billion<sup>170</sup> have flowed into the country during the said year, which greatly improved the country's fiscal position. Some experts point to this as the lead reason why the country did not experience the full brunt of the GFC because these remittances kept Philippine financial institutions afloat, which stabilized the local economy as the peso was screened from foreign currency fluctuations.

The bulk of these remittances came from the United States (41.8 per cent), Canada (10.7 per cent), Saudi Arabia (8.7 per cent), the United Kingdom (4.9 per cent), Japan (4.5 per cent), Singapore (4.0 per cent), the United Arab Emirates (3.7 per cent), Italy (3.2 per cent) and Germany (2.6 per cent).<sup>171</sup>

While there are no official figures yet on the amount of remittance sent to the Philippines from abroad last year, it is projected that the figures will reach more than US\$18 billion. From 1975–2007, total remittances to the Philippines have been estimated to be over US\$120 billion.<sup>172</sup>

### III. IMPACT OF REMITTANCES TO THE PHILIPPINE SOCIETY

Remittances from overseas Filipinos comprise about 12 per cent of the Philippines' Gross Domestic Product. While there is much to be desired in terms of harnessing the full development potentials of these remittances, it is still worth noting the positive contributions they have given to the Philippine society. Among such contributions are as follows:

Reducing poverty. Remittances are a great social equalizer in the Philippines. They bring purchasing power to families of overseas Filipinos, which, subsequently, fuel domestic consumption and stir economic activities. These remittances also send children to schools, build decent houses, sustain

health, and even create small and medium businesses. All these lead to the improvement of the socio-economic status of overseas Filipinos' families and help produce economic growth and development.

**Spurring community growth.** The reduction in poverty rates of remittance recipient families is also found to have positive effects on communities.<sup>173</sup> Remittances that were used as capital for small and medium businesses generate employment within the communities of migrant workers.

**Improving the country's fiscal position.** Remittances of overseas Filipinos are the biggest and more stable source of foreign exchange for the country. Inflows from this source is said to be bigger than foreign aid and investment and other private sources.<sup>174</sup> Thus, according to Espiritu,<sup>175</sup> they "serve to fill what otherwise would be large external payments gaps. They are even countercyclical in nature, meaning they increase when the economy is bad (as the overseas workers send more money to help their hard-up families). Lastly, they help the country in servicing its large foreign debt and gain more financial flexibility".

**Generating savings and investments.** Although savings and investments rank low in the list of destinations of remittances, they remain among the positive contributions of migration. The challenge, therefore, is to harness remittances for these developmental goals.

**Stimulating sectoral growth.** Growth figures in certain sectors have also been directly linked to Filipino migration. Such sectors as banks, real estate, communication and retail trade have all benefited from remittances sent in from abroad. Bankers, property developers, telecom companies, retail giants have seen the potentials of remittances and adopted a host of marketing strategies to capture the remittance market.

#### IV. INITIATIVES TO CHANNEL REMITTANCES FOR DEVELOPMENT

Remittances have a great socio-economic development potential. The Philippines as a developing nation can harness these remittances to create programs, projects and schemes geared towards productive investments, which, consequently, could help expand the country's microenterprises and small and medium-

sized enterprises (MSMEs), and create employment-generating opportunities for the unemployed and the vulnerably employed.

In the past, various initiatives have been undertaken in order to direct remittances into investment opportunities; however, such actions have been rendered ineffective due to a fragmented socioeconomic development vision, lack of harmonization among agencies implementing OFW support programs and the overlapping mandates of these agencies. Thus, individual entrepreneurs, local and international aid giving organizations and the private sector have mostly laboured and went into developmental areas which the government has failed to penetrate.

At any rate, it may be useful to cite some deliberate efforts of the Philippine government to channel the use of remittances towards economic and social development. These include the following:

**National Reintegration Programme.** One of these initiatives is the implementation of a National Reintegration Programme for OFWs by the Department of Labour and Employment (DOLE) through the National Reintegration Centre for OFWs (NRCO), the Overseas Workers Welfare Administration (OWWA) the Philippine Overseas Labour Offices (POLOs) in cooperation with DOLE institutional partners (e.g., Bangko Sentral ng Pilipinas, Department of Trade and Industry, etc.).

Efforts to implement a reintegration programme for OFWs actually started in the early 1980's following the exodus of temporary Filipino migrant workers to Middle East and other labour-deficit countries. Such efforts were anchored on the recognition that labour migration is not a "one-way road". The temporary nature of overseas employment points to the inevitability of return migration, which needs to be confronted as it poses adjustment problems for both migrant returnees and their families at the personal and economic levels. Such problems could only be managed by implementing an effective reintegration programme directed to address the personal and economic reintegration issues of returning migrants.

The government's reintegration programme provides interventions in each of the three phases of overseas employment: pre-departure, on-site and upon return. The programme's coverage of all phases of overseas employment is premised on the belief that planning for eventual reintegration should not commence upon

completion of the OFW's employment contract but even before the OFW departs from the Philippines. This approach enables the OFW and his/her family to realize the importance of properly managing the fruits of overseas employment.

During the pre-departure phase, the reintegration programme is directed towards leading the OFW and his/her family in setting a common goal to be achieved while the former is working abroad. They are guided to define the role of each member in optimizing the migrants' earnings, among other things. This is done through the conduct of mandatory Pre-Departure Orientation Seminar (PDOS) for departing OFWs where guidance on savings mobilization, investments and other aspects of financial literacy are provided to OFWs and their families. Development of the proper business attitude and an appreciation for hard-earned income is also a goal for PDOS participants.

While on-site, migrants are given access to programmes that would not only assist them with adjustment to their new environment but also to those that would help them prepare for their eventual return. These include information that will guide them for engaging in investments and livelihood opportunities upon return, and for accumulating savings, and acquiring new or enhancing skills while working abroad. At the home front, the families left behind are given opportunities to acquire information and skills on livelihood and business development as well as on financial management.

The return of migrants to the country should trigger realization of family goals and help contribute in the national development agenda. Thus, the government's reintegration programme is anchored on encouraging migrants and their families to venture into productive and sustainable economic undertakings that emphasize wealth creation and make the migrants stay home and keep the family integrated and, at the same time, help stimulate economic activities in local communities.

**Filipinos may not be entrepreneurial.** Making entrepreneurs out of OFWs, therefore, entails a lot of efforts and structural support. Specifically, this requires the services of experts in the field of entrepreneurship and business development; and more windows for credit access. Thus, the DOLE through the NRCO and OWWA, aside from being direct reintegration service providers, also provides mechanisms that link OFWs and their families to professional organizations

and institutions that can empower them to achieve economic independence and sustenance by providing advisory and technical assistance on proper utilization of remittances and migrant earnings. Both the NRCO and OWWA also conduct social preparation for OFWs and their families intending to venture into business. This is done through business counselling and continuous mentoring as well as production and entrepreneurship training.

**Savings mobilization through social security and housing programs.**<sup>176</sup> Apart from encouraging overseas Filipinos to invest their remittances in financial instruments and entrepreneurial undertakings, the Philippine government also makes use of its social security institutions to mobilize savings out of migrants' earnings. OFWs are encouraged to enrol in the Social Security System where its members can take part in Flexifund, a savings program that pays 8 per cent interest per annum and that supplements a member's regular sickness, retirement, and death benefits offered by the SSS.

Another institution, the Pag-IBIG Fund (Home Development Mutual Fund), also provides pay returns of 3 per cent for dollar contributions and 7.5 per cent for peso payments. Both Pag-IBIG and SSS, as noted by ADB, were "restructured to serve as savings mechanisms and to respond to two of the main uses for migrant remittances – retirement/health and housing".

Diaspora philanthropy programme for social development. The Philippine government also strives to link remittances to community/country side development. One concrete programme in relation to this is the CFO's LINKAPIL (Lingkod sa Kapwa Pilipino or Link for Philippine Development). The programme has been instrumental in facilitating the flow of assistance or donations from Filipinos abroad to specific beneficiaries in the Philippines. The programme covers the following areas:<sup>177</sup>

1. Education – connects overseas donors to impoverished Filipino children wanting to pursue education. It has established scholarship fund and a mechanism for donation of books and educational materials (e.g., computers, laboratory equipment, etc.).
2. Microenterprises/livelihood – connects overseas donors to local communities, barangays, non-government organizations and cooperatives to establish small-scale or alternative income-generating activities. Assistance provided to beneficiaries

includes grant of capital fund and equipment.

3. Small-scale infrastructure – connects overseas donors to schools, barangays and other institutional populations with minimal or no access to national and local funding. This involves provision of funds for construction of water facilities, health centres, and classrooms, among others.
4. Health and welfare – connects overseas donors to indigent Filipino groups (e.g., orphans, street children, elderly, disabled) to provide them greater access to health services and social benefits. Assistance provided takes the form of conduct of medical or surgical missions, donation of medical supplies and equipment to government and primary and secondary hospitals, and the provision of relief assistance to calamity areas.

Since the creation of LINKAPIL in 1990, a total of P2.3 billion (US\$52.3 million) worth of material and monetary donations have been coursed through the CFO.

Another government-initiated diaspora philanthropy programme supportive of impoverished communities is the DOLE Classroom Donation Project. This project aims to help reduce classroom shortages in elementary and secondary public schools, which hopefully will democratize access to education among children of school age. It appeals to the sense of social responsibility of Filipinos and organizations abroad to encourage them to donate funds to finance the construction of additional classrooms to areas in the Philippines identified to have critical shortages of classrooms. Since its inception in 2003, a total of P114.4 million had been generated with 586 classrooms built.

The relative success of the above undertakings manifested increasing willingness of overseas Filipinos to channel part of their earnings towards government-sponsored programmes that promote social development.

**Harnessing the Potentials of Remittances through Financial Regulation and International Agreements.** The Philippine government has taken the two-pronged approach in facilitating the flow of remittances from overseas to the country. Within the local scene, through the Bangko Sentral ng Pilipinas or the Central Bank of the Philippines, acting as financial regulator, administrative and policy initiatives have

been taken to ensure greater access to the financial institutions' products and services. On the other hand, bilateral agreements have also been forged to ensure that Filipino workers shall have continued access to the labour markets of receiving countries, which consequently ensure the continued flow of remittance into the Philippine financial system.

Role of the Bangko Sentral ng Pilipinas (BSP) in facilitating remittance flow. The enactment of the New Central Bank Act or Republic Act No. 7653, dated 10 June 1993, set the tempo of BSP's administrative framework on the subject of remittance flow.<sup>178</sup> The law authorized the BSP to implement financial regulations regarding fund transfers made through formal channel such as banks, private remittance companies and other remittance agents. Related to this is the passage of various regulations concerning the operations of non-bank financial institutions (NBFIs). BSP issued Circular no. 471, dated 24 January 2005, which required all foreign exchange dealers, money changers and remittance agents to register their operations with the BSP. Aside from professionalizing and regulating the remittance industry and providing an equal playing ground for its players, OFWs and their families are likewise, under this law, protected from fraudulent dealings like the charging of exorbitant remittance fees and inaccurate exchange rates.

Still working within BSP's administrative mandate, and as part of government efforts in recognizing the valuable contribution of OFWs in stabilizing the economy, the Tax Reform Act of 1997, or Republic Act no. 8424, was promulgated to provide tax breaks to OFWs. One interesting provision of this law is Section 23, which states that a non-resident citizen shall be taxed only on income derived from the Philippines; thus, OFWs are exempted from paying taxes on their earnings from overseas sources.<sup>179</sup> Likewise, OFWs are exempted from paying taxes from the earnings of their Foreign Currency Deposit (FCD) accounts in Philippine financial institution (FIs), such as banks.

Moreover, as part of the BSP's strategy of improving the overall financial and business environment for OFWs, which could be achieved via the implementation of sound policies that promote the efficient utilization of remittances, the BSP has instigated two projects aimed at promoting faster delivery of remittance-related services and lowering the cost of sending money to the OFWs' families. The BSP has recently forged a joint project with local clearinghouse for credit-to-other banks mode of remittance. Previously, local receiving

banks used the services of courier firms to expedite the feedback of beneficiary banks in crediting remittance transactions. Through this system, local receiving banks paid the couriers an amount ranging from PhP100-PhP550 ((US\$2.2–US\$12.5) per transaction.<sup>180</sup> By utilizing the electronic settlement of the OFW remittances through the BSP-Philippine Payments and Settlements System (PhilPASS), the OFWs are only charged PhP5 per transaction (US\$0.11), which is 90 per cent lower compared to the previous fee structure. And as banks migrate to the new system, it is expected that the bank's back-end processing will be reduced to PhP50 (US\$1.13) for each OFW remittance transaction.<sup>181</sup>

In addition to improving the system capabilities of the financial sector, the BSP also leads initiatives in providing households greater access to the products and services of FIs. BSP has indeed taken the first steps of democratizing access to FIs' products and services by granting FCDU licences to qualified rural and cooperative banks, a function that used to be handled by universal, commercial and thrift banks.<sup>182</sup> This move, if properly advocated, might entice the families/dependents of OFWs to save and subsequently invest remittances received into productive economic endeavours.

**Bilateral Agreements entered into by the Philippine Government in relation to managing migration/remittance flows.** The Philippines as a labour sending countries has entered into numerous bilateral labour agreements. These agreements mainly cover issues on: (a) employment and mobilization of Filipino workers or exchange of trainees; (b) terms and conditions regulating the recruitment of specific professions such as health/medical professionals; (c) terms and conditions for the employment of Filipino workers under non-citizen employment contract; (d) direct hiring of Filipino workers and (e) protection of Filipino workers in accordance to the labour laws of the receiving countries.<sup>183</sup> Primarily, these agreements seek to ensure that Filipino workers will have access into the labour pool of labour receiving countries.

In recent years, the Philippine government, recognizing work-related violations experienced by Filipino workers abroad, has initiated bilateral agreements that focus on promoting the welfare of migrant workers and protection of their rights. A good example to this initiative is the bilateral agreement signed with Indonesia in 2003, wherein both parties agreed that

they shall take a consolidated effort in ensuring the welfare of migrant workers and the protection of their rights.<sup>184</sup> This, if fully realized, may be used as one of the model mechanisms in overseas employment administration in the ASEAN region.

Furthermore, the Philippines has forged bilateral agreements with some countries with regards to the area of social security. Pertinent to this is the issuance of mutual assistance between the Philippines and the other country in the field of social security and the prorated payment of benefits, wherein a fraction of which shall be paid from respective system.

These agreements, though not directly linked with remittance flow, nonetheless, provide social protection mechanisms for Filipino workers, if properly enforced, in concept, it will guarantee that Filipino workers will receive the remuneration and benefits indicated in their employment contracts. Likewise, the enactment of Republic Act No. 10022 has also reinforced the Philippine government's efforts of ensuring the safety and wellbeing of Filipino workers while working overseas.

One specific case of bilateral agreement entered into by the Philippine Government that directly touched on the flow of remittance was the one signed with the US government. In May 2003, the two governments signed a Memorandum of Intent (MOI) on improving the flow of OFW remittances. The said MOI expressed the assistance to be extended by the US government in realizing the said task. Interesting to this note are the inclusions pertaining to linking the Philippines to the US Federal Reserve via direct system of automated payments and clearing house to facilitate electronic transfers.<sup>185</sup> The United States Government has also expressed that it shall help credit unions and cooperatives in the Philippines to interconnect with the international remittance network system of the World Council of Credit Unions (WOCCU).<sup>186</sup> Furthermore, the United States Government indicated that it shall establish a system that will tap the United States and Philippine postal system in providing low-cost front-end remittance channels in cooperation with the Rural Bankers Association of the Philippines.<sup>187</sup> This act shall significantly reduce fees and other charges paid by Filipinos in sending their remittances.

## V. CONCLUSIONS AND RECOMMENDATIONS

There have, indeed, been various efforts to exploit the full potentials of remittances. All the Philippine Government needs to do is to build on, and solidify these efforts to further facilitate inflow of remittances from Filipino migrants to reduce poverty and spur economic and social development for the Philippines. Some issues and gaps, however, need to be addressed to harness the full potentials of Filipino migrants' remittances and the following are some recommendations that may be considered in addressing the same:

**Pursuing an integrated approach to promote remittances for productive undertakings.** As shown above, there are government initiatives to channel remittances to economic and social development undertakings. These, however, appear wanting in scope and impact. It is, thus, necessary, to have these initiatives integrated into other efforts of local governments, private sector and non-government organizations to achieve greater impact. At present, various sectors are interested in capturing the remittance market not so much to harness its national development potentials but rather to derive income from these remittances (e.g., remittance transaction cost). The convergence of all sectors under a common framework for harnessing development potentials of remittances will be useful.

**Changing traditional mindsets and behaviours.** Filipinos are not entrepreneurial and have low consciousness on the importance of savings and investments. While behaviour and thinking cannot change overnight, a sustained stronger advocacy on financial management may just achieve a grand breakthrough in harnessing the full potentials of migrant workers' earnings and in making the same a real driver of development for the Philippines.

**Breaking structural barriers.** Many Filipino migrants could not participate in national development activities because of certain structural barriers. For instance, access to additional capital for investment and business establishment has remained relatively difficult barring, to a large extent, entrepreneurial development in migrants' communities. Facilities providing financial support to departing migrants have, likewise, remained limited making many migrants vulnerable to highly exploitative financial transactions. Saddled

with financial obligations, a lot of these migrants are compelled to settle their commitment with creditors during their overseas employment. This considerably decimates their remittances thereby leaving little or nothing for development-based undertakings. These structural difficulties and limitations require a more aggressive advocacy for policy development that would make it easier for migrants to use their remittances to more productive endeavours through support structures from facilitative concerned government and private institutions. By providing easy access to productive resources and pre-departure financial support facilities, chances would be high in bringing migrants towards savings, investments, and entrepreneurship consciousness and thereby converting remittances to an added source of capital for development.

**Create an enabling environment for Filipino migrants' investments.** Given the special nature of the Philippine economy, wherein OFW remittances supersede foreign investments, an enabling policy environment must be put in place to promote the productive utilization of migrants' earnings. Incentives to foreign direct investors provided by government can be extended to overseas Filipinos to entice them to invest in their home country. Tax incentives and less tedious or streamlined bureaucratic processes for putting up businesses could help facilitate the flow of remittances from Filipino migrants to enterprises that create jobs and spur economic growth. The financial sector may also strive to lower the cost of cash transfers and set up less rigid remittance procedures.

**Strengthening bilateral and multilateral relations to promote welfare and protection of OFWs.** Contract substitution, human trafficking and other forms of abuses are the growing concerns of the Philippine government. These do not only affect the amount of remittances received by the country but also pose a threat to the personal wellbeing of OFWs and exacerbate tendencies for family dislocation. It is worth noting though that there are moves among ASEAN member states to create an ASEAN-wide labour migration standards to improve overseas employment administration, which shall cover recruitment and placement and welfare and protection mechanism for overseas workers, aimed at mitigating the said concerns.<sup>188</sup> If realized, this could serve as a model mechanism for the Philippines in forging bilateral and multilateral agreements with other labour receiving countries.

Likewise, with regards to facilitating the remittance flow, the ASEAN may possibly consider adopting the Singapore initiative, wherein the Monetary Authority of Singapore has, now, allowed banks, subject to certain restrictions, to open new branches specifically to provide money-changing services.<sup>189</sup> This measure will provide more foreign workers

with more remittance options and convenience. The APEC Alternative Remittance Systems (ARS) initiative and related global efforts<sup>190</sup> may also be spearheaded by ASEAN member States, which hopefully will promote financial integration for the region and promote a more effective and cohesive flow of OFW remittances.

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## **8. CHANNELING DIASPORA FUNDS INTO PRODUCTIVE SECTORS: EXPERIENCE OF SENEGAL (INCLUDING THROUGH COOPERATION WITH AND ASSISTANCE FROM EU)**

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### **I. INTRODUCTION**

Following the objectives and principles contained in Senegal's poverty reduction strategy papers (PRSP), Senegal has issued a Sectoral Policy Letter with the aim of maximizing the positive developmental effects of migration and establishing a fruitful policy partnership based on a higher level of engagement by expatriated people in national development efforts.

This implies promoting a migration process that strengthens human resource development and capital accumulation with the purpose of facilitating investment in productive activities and enterprises creation and development. This type of policy intervention can be particularly relevant in migrant originating regions or localities.

Of a total Senegalese population of twelve million, about two million are disseminated worldwide, especially in Africa, Europe and America. In term of countries, most Senegalese migrants are located in West Africa (Côte d'Ivoire, the Gambia, Mali and Mauritania), Central Africa (both in the Congo and Gabon), Europe (France, Italy and Spain) and in the United States (New York and Atlanta).

The Senegalese migrants actively contribute to the Senegalese economy by sending remittances. The actual amount of remittances transferred is difficult to evaluate, as they are received and measured by different local institutions with different methodological tools. In this regard, we can observe many differences between local and international data in the case of Senegal.

The resources sent by Senegalese migrants have become increasingly important over time. According to local data, formal remittances transfers were estimated to be about 544 billion CFA Franc<sup>191</sup> (832 million Euro) in 2007<sup>192</sup> (Central Bank of West African

States – BCEAO, 2008), and more than 600 billion CFA in 2008. During the period 2005–2009, remittances transfers averaged 500 billion CFA Francs annually (763 million Euro).<sup>193</sup> In 2005, remittances represented 9.1 per cent of the gross domestic product (GDP) of Senegal, 10.3 per cent in 2006 and 12 per cent in 2007. These amounts do not take into consideration informal financial transfers.<sup>194</sup>

### **II. REMITTANCES IMPACT PLAYED IN POVERTY REDUCTION AND IN ECONOMIC AND SOCIAL DEVELOPMENT IN SENEGAL**

One of the most visible links between migration and poverty reduction can be established through remittances transfers. The remittances help to reduce poverty by giving an additional income to migrants' family located in the country of origin. Remittances are a social security and welfare net in Senegal as formal social security is absent, with the exception of one program available to formally hired workers. In this regard, a study has showed that a 10 per cent average increase in international remittances in the gross GDP of a country would lead to a 1.6 per cent decline in people living in poverty (Adams and Page, 2005).

According to Daum (1996), international remittance transfers constitute 80 per cent of financial resources of households located in the Senegal River valley. A share of these money transfers is directed towards the creation of social infrastructure, undertaking real estate investment, and consumption of private services such as health. However, most of the resources received are used to support household spending, representing the main source of income for many families.

Regardless of the approach taken, one of the positive effects of remittances transfers, as evidenced by multiple studies, is its impact upon the struggle against poverty in Senegal.

In 2008, a study of Directorate of Forecast Studies of Senegalese Ministry of Economy and Finance (DPEE) used general survey data from the “Periodical Study Selected Sectors the Senegalese Economy” to measure the effect of migrant remittances upon poverty.

In light of this study we can deduce the following conclusions:

- Remittances are generating an increase of about 60 per cent in the average per capita spending among the recipient households. Such an increase in spending reduces by one third (30.7 per cent) the incidence of poverty at the national level.
- Increases in per capita spending among the recipient households are about 95 per cent in Dakar and only about a 6 per cent in rural areas.
- A paradox occurs when comparing the effects of remittances over the average per capita spending with the percentage of poverty incidence in certain geographical areas. As shown in table 19, the effect of remittances on per capita spending is much higher in Dakar than in rural areas. The contrary happens when looking at their effect over percentage of poverty incidence in rural and urban areas. While in

rural areas the impact is very positive (with a reduction of 60 per cent in poverty incidence), in Dakar the effects are negative (with an increase of 10 per cent in poverty incidence) as families become remittance dependent and are less inclined to engage in other economic activities.

Ndione and Lalou’s study (2005) regarding international migrations trends done in Senegal showed that remittances are highly relevant for assisting migrant’s households in the cities of Dakar and Touba. The study indicates that remittances provide for a large share of households’ vital needs (between 1/3 and 3/4 of household expenses). In Touba, remittances have also enriched recipient households as they allocate significant shares of remittances received, between 24.9 to 48.2 per cent, into building houses and other economic investments.

The Gupta, Patillo and Wagh study (2007), based on 76 developed countries (including Senegal), shows that a 10 per cent increase in ratio Remittances/GDP ratio generates a one per cent reduction in the rate of people living with less than one dollar a day. Such an increase can also increase the average income of the poor and the number of people above the poverty threshold.

Lastly, according G. Daffé (2008), the impact of remittances over poverty reduction passes through a double channel of household spending and investment in human and physical capital.

**Table 19. Impact of remittances upon average per capita spending and level of poverty incidence (in CFA franc)**

		Without Remittances	With Remittances	%
<b>Per capita spending</b>	National scale	197,643	315,936	+59.9
	Dakar	269,580	525,687	+95.0
	Other towns	187,182	305,453	+63.2
	Rural area	145,724	154,340	+5.9
<b>Level of poverty incidence (%)</b>	National scale	52.4	36.3	-30.7
	Dakar	20.5	22.6	+10.0
	Other towns	64.0	25.6	-60.0
	Rural area	71.8	52.7	-26.7

Source: DPEE 2008.

### III. CONCRETE MEASURES TAKEN BY SENEGAL IN ORDER TO CHANNEL THE USE OF REMITTANCES (INCLUDING DIASPORA FUNDS) TOWARDS ECONOMIC AND SOCIAL DEVELOPMENT

In order to channel the use of remittances, Senegal has taken the following measures:

To introduce tax benefits for the importation of equipment needed to create enterprises by returning migrants coupled with attractive investment regulations;

- To simplify the customs process;
- To create a project investment bank to assist in investment decisions within the framework of the Precedential Council for investment;
- To organize a real state and investment fair in order to facilitate the acquisition by migrants of land property and business investments;
- To set an agency and organize events for creating microenterprises and small and medium-sized enterprises;
- To set a universal office for the creation of enterprises within 48 hours;
- To organize diaspora information, identify and visit most significant diaspora organizations;
- To set investment incentives for entrepreneurial diaspora;
- To assist migrants home country reinsertion and reinforce their capacities to undertake projects with the support of a development and solidarity project funded by France;
- To start the “Plasepri” project funded by Italy for 20 million euros (project for the support of the private sector and revalorization of the Senegalese diaspora in Italy);
- To initiate the “REVA” project (Return to Agriculture) for returning migrants (Spain);
- To hold a workshop to support investments by Senegalese migrants;
- To carry on a study on the potential participation of Senegalese migrants in the economic development of Senegal;
- To create the Investment Fund for Senegalese Abroad (FAISE).

As mentioned above, Senegal is implementing a series of specific instruments to channel the positive impact of migration over social and economic development. The more important instruments include the following:

#### A. The Programme for Development and Solidarity Initiatives (PAISD)

The project aims to support social and economic development initiatives by Senegalese expatriates established in France. Support for the project, provided by France, totals about 9 million euros.

- The main areas of intervention of the PAISD are as follows:
- To follow the private economic investment of Senegalese migrants;
- To gather high qualified diaspora experience;
- To finance local development initiatives to supports areas of origin;
- To mobilize the youth supported by the diaspora in order to engage them in volunteer initiatives to benefit areas of origin;
- To contribute to the reduction of the digital divide between Senegalese in urban and rural areas.

#### B. Migration for Development in Africa Project (MIDA)

Based on its long experience with the Return of Qualified African Nationals Programme (RQAN), IOM has launched MIDA to strengthen its capacity building efforts in assisting African countries to benefit from the investment they have made in their nationals. The MIDA is a capacity-building programme managed by IOM, which seeks to mobilize knowledge and skills acquired by African nationals abroad for the benefit of Africa’s development. Many African nationals in the diaspora are applying their qualifications and skills in developed countries in Europe and North America. Such qualifications and skills should be brought back and mainstreamed for developing the African continent. The project will be implemented through a mobility approach that will allow Africans to apply their acquired knowledge and skills in development activities in their country of origin and come back to host countries if they so desire.

### **C. Partnership between Italy and Senegal for Supporting the Private Sector and the Revalorization of the Senegalese Diaspora in Italy (PLASEPRI)**

Senegal is among the countries that receives Italian public development aid. Migration management has recently arisen as a key issue in bilateral relations. Development cooperation is regarded as a mean to encourage Senegalese migrants to set up reintegration projects in country of origin. PLASEPRI is a three year partnership project funded with a 20 million euro grant from Italy. The project aims to contribute to the sustainable development of Senegal by increasing the productive investments launched by Senegalese living in Italy. Such investments should create employment and development opportunities in the areas of origin.

### **D. EU-Senegal Relationship: the Role of Mobility Partnership Agreements**

Migration issues have become major themes in Senegal-EU relations. Senegal's PRSP (2008–2013) lays out the framework for cooperation in migration issues, including relations between the European Commission and Senegal. The migration agenda between Senegal and the EU covers several migration-related issues that range from economic growth to poverty reduction and specific issues related to employment creation among the youth and the link between migration and development.

The EU and Senegal are currently negotiating a Mobility Partnership Agreement (MPA) under this framework. The MPA was a result of the November 2006 EU-Africa Declaration on Migration and Development and it is intended to facilitate circular migration, and to some extent improve labour market access to the EU for the citizens of selected third countries. This type of partnership belongs to a larger framework of agreements between the EU and third countries that also includes cooperation on related issues as development aid, visa facilitation, temporary migration and irregular migration.

### **E. The Investment Fund for Senegalese Abroad (FAISE)**

Created in 2008 by the Senegalese Government, FAISE supports development, poverty reduction and investments. More specifically, FAISE seeks to channel migrant remittances into productive investments (e.g. real estate) and allow the participation of diasporas in the creation of employment through the creation of small business. FAISE currently has several lines of interventions. The most important are as follows:

- Promoting productive capacity and business opportunities for development-oriented investment by migrants;
- Encouraging a higher engagement from Senegalese abroad in the social and economic development process of the country;
- Financing productive investment projects carried out by Senegalese abroad through subsidies, credit and collateral provision and insurance with private financial partners (e.g. banks, microfinance institutions and insurance companies);
- Encouraging the development of the localities and territories of origin of migrants;
- Contributing to the struggle against illegal immigration by creating and developing enterprises, especially in areas of origin of migrants;

The Ministry of Senegalese abroad has created a Directorate for the support of Investment and Projects (DAIP). DIAP is in charge of gathering and evaluating all project proposals for the purposes of providing support. Since its creation, 134 projects have been considered eligible, creating more than 1,300 jobs, with an average of 9 employees per project. Sixty-five Senegalese migrants have been directly financed with around 330 million CFA franc in the last two years.<sup>195</sup> Projects have been implemented in areas such as agriculture, fishing activities, handicraft production, textiles, information and communication technologies, construction, public works and diverse services.

### **F. THE DEVELOPMENT COOPERATION IN SUPPORT OF LOCAL GOVERNANCE**

Decentralized cooperation seeks to promote local governance and democracy and to strengthen

relations among regions and territories. In Senegal, it has played an important role in the decentralization process, the development of local strategies designed to reduce poverty and in making certain regions and territories more competitive. Today, Senegal has more than one hundred partnership agreements between local development cooperation programmes and organized Senegalese diaspora organizations. While this type of cooperation is relatively unknown, it can be of great assistance for advancing local development objectives when linked to the contribution of migrants.

#### IV. THE FACTORS IMPEDING THE FLOW OF REMITTANCES AND THEIR USE FOR ECONOMIC AND SOCIAL DEVELOPMENT NEEDS

Despite of their importance, remittances seem to be ill-valued because of the following impediments:

- Lack of knowledge about the migrants profiles (geographical, social, professional and economic);
- Lack of sufficient organization by authorities in order to better support and represent migrants;
- Lack of reliable data and lack of information for Senegalese abroad on how to do business or potential opportunities in the home country,
- lack of knowledge about existing incentives and other enabling measures for migrants Aboard;
- Weak understanding of the diaspora's knowledge and skills; and
- Scarcity of financial means

One of the greatest challenges of authorities is facilitating reliable remittance transfers and ensuring lower transfer fees. The average cost of transfers from developed countries to Senegal ranges between 13 to 20 per cent of the total amounts transferred.<sup>196</sup> This high cost plus low accessibility to formal channels incentivizes the use of informal channels.

In relation to financial intermediation, the main impediments in the formal banking system include the following:

- A weak diversification of financial assets;
- Inappropriate banking system to address saving needs;

- High interest rates for credit;
- Weak savings mobilization; and
- A weak credit offer.

#### V. MEASURES TO BE TAKEN AT NATIONAL, BILATERAL, REGIONAL OR INTERNATIONAL LEVELS TO REMOVE IMPEDIMENTS TO REMITTANCES FLOWS

The existence of important impediments in the Senegalese remittances services market (i.e., high transfer fees, high levels of informal channels and a weak and relatively homogenous financial services offer) calls for a vigorous set of actions including the following:

- **Reducing remittances transfer costs.** According to the World Bank, if transaction fees were reduced by 5 per cent, remittance flows would increase by \$3.5 billion per year. In some countries, tax exemptions to transfers by formal channels have encouraged reductions in the transactions cost of remittances and an increased use of formal channels.
- **Putting migrant remittances to work.** This basically means creating incentives to channel money transfers through formal financial networks (Banks, Microfinance and productive sectors) or into productive activities.
- **Improving financial regulation and expanding competition.** It has been estimated than about 46 per cent of remittance transfers to Senegal arrive by informal channels.<sup>197</sup> In this regard, it is important to facilitate the use of formal channels by opening the sector to wider competition and by modernizing the national system of payments. These are particularly difficult challenges for countries as they touch on areas of regulatory sovereignty. Competition can be brought by opening the money transfer market and by increasing the number of licenses for authorized financial institutions without relaxing existing prudential regulations. For example, allowing micro finance institutions to undertake money transfer services will provide services to a wider share of the population, including in rural areas.

Formal transfers could also facilitate an increase in savings and to reduce risks related to the capture of transfers by money-laundering networks.

- **Encouraging migrants' financial education.** The reorientation of remittances usage is usually quite difficult due to the particular purposes and individual needs of senders and recipients. Remittances are private transfers and savings built on remittances belong to migrants and their families. So when designing and undertaking financial education programmes to achieve financial optimization of the remittances, taking into consideration the motivations and behaviour patterns of senders and recipients is recommended.
- **Channelling Senegalese migrants' remittances towards productive sectors.** This implies creating innovating financial products in the banking and insurance sector and setting adequate administrative and institutional support processes in order to respond to migrant choices. Revalorization of investment decisions made by migrants, gaining migrant trust and building support programmes on existing diaspora networks and families at home can help effectively channel remittances for productive uses.
- **Encouraging Microfinance institutions to channel remittances for financing micro and small enterprises.** Micro finance institutions could play a greater role in channelling remittances for entrepreneurial activities if they link transfer services to the use of other financial products such as micro credit, micro insurance and special savings accounts.
- **Creating investment funds in order to channel remittances towards public and private partnerships.** This can be done by allowing small investment and participation in public enterprises privatization or by issuing bonds for financing public works of public enterprises.
- **Strengthening institutional support for creation of migrant enterprises** by informing migrants of home country investment opportunities and reinforcing the migrants' skills in business management.
- **Creating a Warranty Fund** in order to facilitate access to bank credit and to create a safe and reliable environment.

- **Promoting the negotiation of balanced agreements seeking regulate migration flows between States.** Well-negotiated agreements can facilitate remittances flows, open opportunities for labour mobility and ensure for social security protection for migrants.
- **Expanding financial and physical infrastructures in rural areas in order to enhance the positive effect of the transfers tools suggested.** This is can be a key factor in formalizing remittances flows.

## VI. INSTRUMENTS USED BY THE FINANCIAL SECTOR TO CHANNEL REMITTANCES INTO PRODUCTIVE SECTORS

According to Tall S. M. (2008), Senegalese financial institutions are interested in attracting the broad resource base that remittances flows represent. Banks and insurance companies are increasingly offering new products and services that match migrants' needs. The offer and marketing of these products and services is being made by offices and agencies that have knowledge and experience about migrant needs. Moreover, some banks are also opening agencies and branch offices in countries hosting Senegalese migrants. For example, the "Banque de l'Habitat du Sénégal" has opened new agencies in New York and Paris and the "Société Générale de Banques au Sénégal" recently opened branch offices in Paris in partnership with Société Générale Group.

The tools created by the financial sector target migrants' needs and are being clustered in financial products and services packages linked to these needs. Table 20 illustrates the type of banking products and services packages that have been offered by some Senegalese banks.

In fact, there is a trend towards softening some of existing access conditions to credit in many home countries. The existence of international banks like the Ecobank and Bank of Africa as well as the reinforcement of partnership between host and home countries banks also constitute positive factors for channelling remittances into productive sectors.

## VII. SENEGALESE INSTITUTIONS AND PARTNERS IN PLACE TO PROMOTE COHERENCY AND COORDINATION AMONG VARIOUS STAKEHOLDERS

Under a multi-stakeholder approach, the following institutions have been collaborating for the purpose of facilitating the flow of migration and remittances.

1. Senegalese Government: Presidency of the Republic, Ministry of Foreign Affairs, Ministry of Economy and Finance, Ministry for Senegalese Abroad, Ministry in charge of Employment, Ministry in charge of Work, Ministry of Interior, Ministry of Microfinance, Ministry of Family, and Senegalese agency for the promotion of Investment and the Agency for Development and Small and Medium enterprises.
2. International agencies: International Organization for Migration (IOM), International Labour Organization (ILO), African Development Bank (ADB).

3. Private sector: Banks, Microfinance Institutions, Insurance Companies.
4. Non-governmental organizations: Union pour la Solidarité et l'Entraide (USE-Congad) and various Senegalese diaspora organizations.

## VIII. CONCLUSIONS AND POLICY RECOMMENDATIONS

Remittances are a notable source of foreign currency and contribute to improvement of the living conditions and survival of Senegalese migrants' families. They contribute greatly to the reduction of poverty in rural areas and to the transformation of cities through investments. In Senegal, where remittances provide more than thirty five per cent of household budgets, formal financial transfers recorded from 2005 to 2009 totalled around 3.8 billion euros.<sup>198</sup> Countries of origin, which receive substantial transfers, show lower incidence rates of poverty than the countries not affected by migration issues. While funds transferred to Senegal contribute to preventing poverty, there remain challenges to channelling remittances and investments towards productive sectors in Senegal.

**Table 20. Banking package to develop for Senegalese migrants**

Current/private account	Savings account	Credit account	Investment account	Insurance products
Payment cards	Savings deposits	Consumer credit	Capital expenditures	Life insurance
Standing order mandate	Term deposit	Home loan	Mutual fund	Whole life insurance
Transfer	Education savings plan	Personal loan	Distance Investment	Death repatriation insurance
Electronic banking	Home savings plan	Car loan	Reserve fund	Sickness insurance
	Saving and passbook accounts	Loan on personal property		Home insurance
	Wage savings	Healthy credit		Car insurance
	Project savings	Overdraft account		Old age insurance
	Home-coming savings deposits	Swing-line		Retirement insurance

Source: IOM (2007). Workshop on "Financial optimization of remittances – Case of Senegalese leaving in Italy", Dakar, 18 September 2007.

In fact, it is necessary to improve the positive impact of migration on development in the following areas:

- Reinforcing the role of migrants as development actors by consolidating their capacities and ability to contribute to development policies;
- Taking into account migration and remittances issues when developing regulations and policies at national, bilateral and multilateral levels or when signing or ratifying international conventions on the free movements of persons or the protection of migrants and members of their families.
- Harmonizing national, regional and international policies to enhance coherence in migration management;
- Making better use of remittances by setting policies to facilitate job creation in migrants' countries of origin;
- Addressing irregular migration and prioritizing promotion of legal movement of labour.



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## 9. THE ROLE OF TRANSFER OF FUNDS FROM MOROCCANS LIVING ABROAD IN THE SOCIO-ECONOMIC DEVELOPMENT OF MOROCCO

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### I. INTRODUCTION

Remittances play a crucial role in the migration debate both at microeconomic and macroeconomic level. Remittances are today a key source of international financing for many developing economies. They provide a significant contribution to the macroeconomic stability of countries and State finances, especially in terms of income inflows and sources of hard currency.

In general terms, migrants' remittances to home countries have increased considerably during recent years and have emerged as a key external financing source for most developing countries. Migrants' remittances represent higher capital inflows than those of investment portfolios and are three times higher than total international development assistance.<sup>199</sup>

Because of their volume (about \$316 billion for developing countries)<sup>200</sup> and their role in developing economies, particularly in the poverty reduction, financing small businesses, education and health expenditures; these transfers have been subject to special attention by policymakers in both developing and developed countries. For Morocco, the main objective of its current remittances policy is to enhance their positive impact, particularly through the optimal use by shareholders who should be able to genuinely leverage them in light of their own interests.

### II. DEFINITIONS

Remittances from Moroccans living abroad (MLA) are difficult to quantify. Actual levels of remittances flows are difficult to assess due to a wide diversity in transfer practices and difficulties in controlling and regulating transfer circuits. Such flows are mainly categorized in formal and informal transfers. Formal transfers

are those that use official channels such as banks, post offices and money transfer companies (MTCs). Formal transfers are usually listed in national balance of payments as "unrequited transfers." In contrast, informal remittances tend to use "person to person" channels for transfers and are not recorded by official statistics.

Some formal transfers are made through social agencies or employers on behalf of a migrant or his family. This latter type of "social transfers" includes pensions, retirement and social security contributions, family allowances, and medical expenses. "Social transfers" accounted for up to 10.7 per cent of MLA total remittances transfers to Morocco.<sup>201</sup>

Two other forms of transfers that are gaining importance in countries of origin are "know how" transfers, which are composed of intellectual and knowledge contributions by MLA, and "collective remittances," which target the economic, social, human and political development of the migrant's country or region of origin. Collective remittances can constitute a lever for local development. Indeed, migrants can actively participate in regional development through their contribution to local development projects. This type of contribution jointly with other forms of diaspora action is being considered as a new form of development policy known as "joint development or co-development". This new form of development policy has also been considered as a form of development aid.<sup>202</sup>

"Know how" transfers are mainly provided by MLA with high skills, academic knowledge or advanced technical training. MLA occupying positions in transnational companies, universities and research centres in host countries can offer significant opportunities for expertise exchange, knowledge transfer and network building. In many cases, these expatriates can also be relevant channels for improving international relations

or active diplomacy as some may work in international organizations or are already playing important roles in their country of residence. This type of transfers can offer important opportunities to channel expertise into to the national economy and create deeper ties for parallel diplomacy abroad.

### III. TRANSFERS FACTORS

Factors that affect remittances flows have been subject to a great deal of debate in the specialized literature. However, three main factors are likely to play a significant role.

#### A. Institutional Factors

This factor is related to the existence or the establishment of institutional structures that reinforce the links between migrants and their country of origin. In this regard, the availability of facilities to encourage MLA to save, invest and initiate entrepreneurial activities are fundamental instruments for channelling remittances flows. Developing programmes for the mobilization of skills from MLA as well as Diaspora organizations for improving good governance, democracy and human rights. Quality of the judicial system and the tax system can also be institutional determinants that have a positive effect on transfers.

#### B. Microeconomic Factors

Migration is in many cases an economic project for which the main purpose is transferring resources to families in the home country and building savings. However, migrant saving capacities and their propensity to transfer funds to Morocco differ according to the migrant's profile. Several parameters are involved at this level:

- Intergenerational migrant behaviour. The first generation of migrants are more inclined to send remittances as they have stronger and closer ties with relatives left behind and with the country of origin.
- Employment status, type of job and the level of income. Remittances flows are affected by the real wage rate, employment of the spouses, availability of unemployment benefits, family allowances, and housing benefits among others.

- Dependants: Their presence or absence in the migrant's family, and their number, ages and migrants' children affect transfer decisions.
- The general living conditions: Living conditions in host country and the degree of the migrants' integration affect spending decisions and the amounts to be transferred.
- Expectations about returning home: If the migrant plans to return home, a relatively substantial income is sent to the country of origin. In this regard, funding for housing is a major concern for such migrants.
- The degree of altruism and solidarity and attachment to family and the home country: A key determinant of the amounts to be transferred is the nature of the relationship between the donor and the recipient. Donors often feel a moral obligation to ensure the survival of recipients, who are often their relatives. Moreover, recipients are sometimes older and receive transfers as compensation for the investment they have made in providing the migrant education or helping him to migrate. This altruism can be tempered and could be related to a pattern of services exchange, such as caring for children and providing for the family left behind. Sometimes, these transfers can also be used to improve prestige of the migrant (e.g. sponsoring a sport club).

Ultimately, the propensity to transfer and save depends on the objectives assigned by migrants to their migration project. Overall, the migration project is an economic project based on the intention to collect a maximum amount of savings which usually is the residual income after consumption and other primary expenses. The effects of these residual amounts are what countries are trying to maximize.

#### C. Socioeconomic Factors

Socioeconomic factors affecting remittances primarily consist of the availability of banking development infrastructure, the quality and coverage of the service, and the transaction costs. In the particular case of Morocco, banks offer competitive services compared to many other migrant originating countries in Africa. Moroccan banks have a quite diversified platform of products, investment assistance abroad and low levels of transaction cost.

## IV. PARTICIPATION OF MLA IN ECONOMIC DEVELOPMENT

The Moroccan diaspora takes an active part in economic development of Morocco. With a migrant community of over 3 million persons, Morocco receives annual remittances transfers of about €4 billion.<sup>203</sup> These transfers inject dynamism into several industries including handicrafts. In this regard, migrants not only participate in the development of Morocco, but contribute to its economic survival. Remittances continue to play an ever greater role in the life of Moroccan people. They assist in the fight against poverty and in the education of good citizens who will play a role in Morocco's future. Thus, when a migrant funds the education and health of a Moroccan citizen, he also contributes to Morocco's development.

Remittances from MLA represent the highest type of international capital inflow into Morocco. The country is aware of this and is making efforts to identify diaspora needs, study migration and remittances patterns, and promote investment. MLA priorities have evolved and remittances trends have followed. In the past, migrants invested in real state in the anticipation of their retirement, favoured small businesses in their regions of origin, assisted in job creation and even participated in development projects in their regions of origin. Today the country has evolved, and the profile of young Moroccans abroad has also changed. New MLA are well educated and trained to better face globalization challenges. Their investment now focuses more on sectors and activities neglected by the first wave of migrants, such as investment in tourism, transport, services and new technologies. These investments could have significant effects on economic expansion. Also, some have contributed to development of agricultural activities and public works or in the generation of sustainable energy.

Figures on remittances are continuously evolving. During the period 2001–2005, banks transfers grew 9.2 per cent; bank notes grew by 10.8 per cent and total income by 8.8 per cent.<sup>204</sup> This basket represents about 9 per cent of GDP and related bank deposits reached 87 billion of dirham, corresponding to 25 per cent of total deposits.<sup>205</sup>

This data shows the importance of remittances transfers to Morocco, but also for financial institutions

and other stakeholders. But it seems that despite these volumes the developmental impact of these transfers is still small. Experts tend to agree that to about 80 per cent of remittances are used to cover survival needs. Despite these limitations, the microeconomic value of remittances is undeniable as they can increase domestic consumption and promote investment in the production of local goods and services. About 72 per cent of non-consumed remittances are invested in real estate and construction promoting direct job creation in the construction sector and indirectly in other sectors such as carpentry, furniture, decoration or industrial products such as textiles or appliances. Remaining amounts (about one third) are saved or invested in small and medium enterprises such as laundry or telephone services or small mechanical workshops.

Numerous studies<sup>206</sup> have highlighted the potential offered by remittances flows, if they are effectively channelled and directed towards dynamic sectors that are capable of contributing to the creation of local wealth. Remittances can increase family income, improve living conditions and occasionally play a social protection role in case of sickness and unemployment, especially in poor regions. Remittances can also have a positive impact during difficult times. For example, they can address problems that arise during years of poor harvests. For States, remittances are a welcome income that strengthens their balance of payments, especially during times of crises and can improve the country credit worthiness facilitating access to international capital markets. Effective mobilization of the investments of Moroccan diaspora represents a lever for promoting more sustainable economic growth, strong for regional expansion, and greater opportunities for enhancing human development, in order to build the Morocco of tomorrow.

The interfaces mentioned above can create synergies between the needs of the State and host country population and desires of MLA. They can also generate complementary relationships between upcoming investment projects and Government action. There is no doubt that the active participation of MLA will help Morocco promote the development of a viable and competitive economy vis-à-vis globalization challenges.

## V. MLA PARTICIPATION IN SOCIAL DEVELOPMENT OF MOROCCO

For many years, research on remittances has mainly focused on its economic impacts. Nevertheless, remittances can have impacts in other dimensions, including in social areas. Analysing the social impact of remittances as well as its effects, positive and negative, is not an easy task. Looking at those impacts as options for maximizing positive effect needs to be further analysed.

The social impact of remittances on local populations, especially women and children remaining in the country, has received attention, both from researchers and governments. In the case of Morocco, understanding of social impacts only began after the creation of a Migration policy. So far the levels of impact of such a policy over human development remain low, especially in education and health.

Social dimensions of remittances include poverty reduction, education, access to water and sanitation services, nutrition and health, access to information and media, and gender equality.

Regarding poverty reduction, remittances contribute to increased household income. The National Survey on Living Standards of Households shows that remittances reduce poverty rates by 3.4 per cent.<sup>207</sup> This means that almost one million people are spared from poverty through funding received. Other surveys of more qualitative nature lead to similar results.<sup>208</sup>

Regarding education, a share of remittances received by migrant households is used for the education of children. Allocation amounts vary depending on the methodologies used by the study in question. The education of children is in some cases the primary motivation for migration among parents and for transfer of remittances, at least during a migrant's initial years abroad. Differences in levels of school enrolment tend to decline as a consequence of remittances. However this trend tends to be limited, according to several studies on primary education.<sup>209</sup> Some studies address remittances' impact on education through more indirect means, including urbanization, creation of communication infrastructure for poor rural areas, investment in income generating activities through financing education, and changing housing to locate near schools. Similarly, other studies focus on the impact of migration on children. These studies

indicate that migration may have a negative impact on children's education. In many cases the absence of one or both parents deeply affects children's behaviour and school performance.

Remittances by MLA can have a positive impact on access to drinking water and sanitation. Households seek to improve direct access to drinking water, for example, by digging wells or by moving to locations with better access to water and sanitation. Collective action, either through money transfers made through migrant NGOs or via the collection of remittances by local associations, can aid development of local sources of drinking water. The accessibility of these services can have structuring effects on children and women's lives by limiting certain childhood diseases and by saving the girls from fetching water, therefore giving them the opportunity to study.

As for health and nutrition, consumption accounts for the bulk of remittances spending. Increasing income through remittances transfers or by the generation of income from economic activities financed by remittances can allow greater access to health care. Moreover, access to safe water and sanitation, better housing conditions and proximity to health services can improve the health status of children and women. The construction of rural clinics and the improvement of existing health infrastructure through NGOs or diaspora associations can have an important local impact on access to health services. Some authors have also mentioned the positive impact of literacy and informal school activities, built through remittances, to knowledge about women's reproductive health and hygiene.

Regarding the impact of remittances on access to information and media, it should be noted that migrants' families, including women and children, benefit more than families of non-migrants. In general, migrant families have wider access to information, tools and media formats, including the Internet. The impact of access to information and media can be significant on education and health. However, there is little evidence regarding how significant this impact may be. It should be noted that information campaigns conducted by NGOs for migrant women on reproductive health, contraceptive practices and hygiene also have generated a positive impact on women awareness on health risks. Improved access to information can also result from the informal dissemination of knowledge and exchange between migrants and non-migrants, particularly during migrants' visits to their countries

of origin, playing an important role in adopting new models of marriage and family structures. Finally, the use of new information and communication technologies introduced through remittances may contribute to the opening of new local businesses and marketing channels for traditional products in the international market.

The progressive feminization of Moroccan migration in recent years has greatly changed the amount of remittances received and the way in which remittances are used as female migrants have a propensity to send more remittances and direct them to priority needs such as education and child health. Moreover, migration can improve the status of women back home, encourages empowerment and makes them more independent.

## VI. MLA MONEY TRANSFER

Remittances from MLA reached 49.66 billion of dirham in November 2010, against 46.5 billion during the same period in 2009, representing an increase of about 7.8 per cent.<sup>210</sup> The resumption of growth in these transfers in 2010, after a decline of 3.6 per cent in 2008 and of 5 per cent in 2009, can be attributed to the importance of migration flows, the emergence of new destinations, the attachment of MLA their the country of origin and the positive perspectives of economic recovery in some host countries. In Morocco, remittances from MLA play an essential role in boosting the national economy, especially in deprived regions of the country. These funds are also an important source of hard currency. The World Bank recently announced that money transfers reported to developing countries, including Morocco, will continue to grow in 2011 and 2012, reaching to about \$370 billion dollars in two years, against the \$307 billion of 2009.<sup>211</sup>

### A. The Lucrative Market for Money Transfers

Competition is intensifying in the market for money transfers. However, the challenge for many of money transfer companies seems to be volumes and means use for transfers. According to the Regional Director of North Africa of Western Union, remittances transfers from MLA to Morocco amounted to 50 billion dirhams and Western Union's market share reached about 20 per cent at the end of 2009.<sup>212</sup>

Between 1982 and 2009, MLA have transferred some 666 billion dirham. 70 per cent of this amount came from MLA living in Europe.<sup>213</sup> Transfers from European countries totalled 593 billion dirham since 1982. From a statistical point of view, about 80 per cent of the 3.2 million MLA are located in Western Europe, 9 per cent live in Gulf countries and 6 per cent in North America. Demographic structure of MLA has faced a substantial changes and growth during these years. Nearly 50 per cent of MLA are women.<sup>214</sup> This explains why there is today a stronger tendency to save and invest.

Most remittances transferred to Morocco are "monopolized" by banking networks. The "Popular Bank" receives around 53 per cent of MLA savings, followed closely by the "Attijariwafa bank" whose market share has reached about 20 per cent. Both banks are waging a fierce battle on the European continent, where 70 per cent of the transfers originate.<sup>215</sup> By opening their own offices in Europe, Morocco banks hope to gradually capture direct transfers from MLA, without relying on Western Union or Money Gram networks. The Moroccan banking sector is increasingly investing in new operators. Services points are multiplying and service is becoming more democratic. However, transfer fees remain high. The absence of financial supervision and controls has translated in each operator setting its own price range.

### B. Moroccan Policy of Financial Inclusion

Volumes of remittances inflows to Morocco are some of the highest in the world, amounting to about 45 billion of dirham per year (nearly €4 billion). Morocco has a long-term policy of financial inclusion that has been used as a reference point for other developing countries. Morocco has distinguished itself for having a solid and powerful banking system and has an established fund and remittances transfer policy. Morocco has a mature and competitive banking system including in the money transfer segment. The main reason for the Morocco's success has been the implementation of a strategy of direct representation in host countries or in countries that have important commercial relations with Morocco. This is an advantage that many other African countries do not have. Moroccan banks also offer a variety of services to migrants, which go beyond remittances transfers and include a range of additional services such as saving, insurance, real estate, investments portfolios.

Remittances transferred through the banking system also contribute up to 4 per cent in reducing vulnerability. These funds also contribute to social development of Morocco, including access to education, medical care and basic services.

## VII. CONCLUSIONS AND RECOMMENDATIONS

The future strategy being developed by the Ministry of MLA, as well as relevant sectoral public policies, must take into account all the factors affecting remittances transfers if they want to ensure the continuity and regularity of remittance flows. Such continuity and regularity can be further promoted by the following actions.

Establishing and improving social, educational, cultural, religious and recreational activities, to strengthen links between MLA and Morocco;

Developing existing banking infrastructure, quality of service and coverage in Morocco and in the host countries;

- Supporting competitiveness and diversification services by Moroccan banks in host countries;
- Developing programmes for the mobilization of Moroccan skills overseas and the diaspora associations.
- Factors that can have an effect on remittances and investment by MLA include the following:
  - The existence of mechanisms that encourage MLA investment and entrepreneurship;
  - The quality of the justice system and the tax system;
  - The degree of assistance to MLA investors;
  - The level of transaction costs;
  - Democracy and human rights protections;
  - Good public governance, in particular the commitment of the State against increased bureaucratic barriers and corruption.

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## ENDNOTES

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- <sup>59</sup> See World Bank (2010).
- <sup>60</sup> See, for example, Nishat and Bilgrami (1991) and Adelman and Taylor (1990).
- <sup>61</sup> Another channel may be through fertility. Fargues (2007) finds strong positive and negative correlations between remittance receipts and fertility rates for Egypt and Morocco, respectively. But the author argues that remittances may simply be proxying for the transmission of social attitudes rather than having a causal impact on fertility. In addition, Cox and Stark (2005) argue that parents provide financial help to encourage the production of grandchildren through what the authors identify as the “subsidization effect”, or a child’s willingness to furnish parents with attention and care conditioned on prior parental example.
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- <sup>101</sup> <http://www.ptc.upu.int/ps/ifs.shtml>.
- <sup>102</sup> This figure is estimated at 6,000 by the World Bank (2006). It is estimated that there are five bank branches for 100,000 adults in the urban areas of Sub-Saharan Africa, compared with 0.5 in rural areas (Consultative Group to Assist the Poor 2009). These figures, combined with 2009 data of the United Nations Department of Economic and Social Affairs, Population Division, 2009, translate to 9,250 urban bank branches and 1,565 rural bank branches, for a total of 10,815 branches.
- <sup>103</sup> Mandat express international ("international money order").
- <sup>104</sup> In the context of this project, rural areas have been defined as areas outside the two to five major towns of each country.
- <sup>105</sup> In Gabon, the market share of MEI, compared with the total remittance outflows from Gabon, is estimated at 5.6 per cent in 2009 (computed with data from the World Bank (2010)).
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- <sup>110</sup> The IFS is an end-to-end information technology platform for electronic postal payment services. <http://www.ifad.org/remittances/events/recommendations.pdf>.
- <sup>111</sup> General principles for international remittance services, World Bank, 2007, [http://siteresources.worldbank.org/INTPAYMENTREMITTANCE/Resources/New\\_Remittance\\_Report.pdf](http://siteresources.worldbank.org/INTPAYMENTREMITTANCE/Resources/New_Remittance_Report.pdf).
- <sup>112</sup> Manuel Orozco & IFAD (2007). Sending Money Home: Worldwide remittance flows to developing and transition countries. See [http://www.ifad.org/remittances/maps/brochure\\_f.pdf](http://www.ifad.org/remittances/maps/brochure_f.pdf).

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- <sup>114</sup> ILO (2010). International Labour Migration, a rights-based approach.
- <sup>115</sup> Gloria Moreno Fontes (2008). Migration, Gender Equality and Development. Overview Paper for the International Conference on Gender, Migration and Development: Seizing opportunities, upholding rights. Philippines.
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- <sup>117</sup> Contribution of the African, Caribbean and Pacific (ACP) Observatory on Migration for the United Nations Conference on Trade and Development (UNCTAD) publication following the two-day expert meeting on 'Maximizing the Development Impact of Remittances' held in Geneva on the 14–15 February 2011 with the aim to feed into the informal debate on International Migration and Development in May 2011 and the second United Nations HLD Dialogue on Migration and Development to be held in 2013. The ACP Observatory is an institution designed to produce data on South-South ACP migration for migrants, civil society and policymakers and enhance research capacities in ACP countries for the improvement of the migrants' situation and the strengthening of the migration-development nexus. The Observatory is an initiative of the ACP Secretariat, funded by the European Union and with the financial support of Switzerland. This publication has been produced with the financial assistance of the European Union. The contents of this publication are the sole responsibility of the authors and can in no way be taken to reflect the views of the Secretariat of the African, Caribbean and Pacific Group of States (ACP), the International Organization for Migration (IOM) and the other members of the Consortium of the ACP Observatory on Migration, the European Union nor the Swiss Federation.
- <sup>118</sup> According to the World Bank classification (see <http://go.worldbank.org/QGUCPJTOR0>) as the source of the remittances figures. The same applies to the UNDP categorization of developing countries, being all countries except for the ones with a very high Human Development Indicator (see <http://www.acpmigration-obs.org/sites/default/files/South.pdf>).
- <sup>119</sup> Own calculations based on World Bank (2010a). A complete aggregation and comparison of data for ACP States is not possible. Despite the guidelines provided by the International Monetary Fund (IMF) (Guide for Compilers and Users of International Remittances Statistics (2009), available remittances data varies between countries due to, for instance, differences in methodology (e.g. use of citizenship instead of residency status) and non-inclusion of data from other operators besides banks, such as money transfer operators (MTOs, e.g. Western Union), post offices and mobile MTOs (Irving et al (2010); World Bank, 2010b). For some ACP countries no data was available at all: Angola, the Bahamas, the Central African Republic, Chad, Cook Islands, the Democratic Republic of the Congo, Cuba, Equatorial Guinea, Eritrea, the Marshall Islands, the Federated States of Micronesia, Nauru, Niue, Palau, Somalia, Timor-Leste, Tuvalu and Zimbabwe. Therefore, every fifth ACP country is not covered in these figures. Together with the unknown extent of informal flows, remittances inflows in ACP countries are likely to be considerably higher.
- <sup>120</sup> The six ACP regions include the Caribbean, Western Africa, Central Africa, Eastern Africa, Southern Africa and the Pacific.
- <sup>121</sup> Central African Republic, Chad, the Democratic Republic of the Congo and Equatorial Guinea.
- <sup>122</sup> United Nations General Assembly (2002). International migration and development. Report of the Secretary-General. Document A/65/203.
- <sup>123</sup> Own calculations based on World Bank (2010b).
- <sup>124</sup> Ibid.
- <sup>125</sup> Ibid.

- <sup>126</sup> The simple transfer of money often not enough to make remittances “financially viable” for a financial institution. There is a need to attach the money transfer to a service in order to create a longer relationship between the sender/receiver and the financial institution (e.g. saving account, pension funds, financial schemes...). For instance, OXFAM/IAMFI combines remittances transfers with microcredit projects.
- <sup>127</sup> Own calculations based on World Bank, 2010b. No data available for 18 ACP countries.
- <sup>128</sup> Ibid.
- <sup>129</sup> In addition, three items are considered supplementary, but not mandatory for remittances statistics: personal remittances (the sum of personal transfers and net, or ‘take home’, compensation of non-resident workers), total remittances (the sum of personal remittances and social benefits), and total remittances and transfers to non-profit institutions serving households (NPISHs, also includes donations). They are cumulative measures of different items. See IMF (2009b) and Reinke (2007).
- <sup>130</sup> For further information see: [http://publications.iom.int/bookstore/index.php?main\\_page=product\\_info&products\\_id=536](http://publications.iom.int/bookstore/index.php?main_page=product_info&products_id=536).
- <sup>131</sup> The Bank for International Settlements’ and the World Bank’s General Principles (2007) provide a guiding framework: [http://siteresources.worldbank.org/INTPAYMENTREMMITTANCE/Resources/New\\_Remittance\\_Report.pdf](http://siteresources.worldbank.org/INTPAYMENTREMMITTANCE/Resources/New_Remittance_Report.pdf). <https://www.tangaza321.com/tan/>.
- <sup>132</sup> Non-mainland Chinese refers to Chinese in Taiwan Republic of China, Hong Kong (China) and Macao (China). Statistically China records investment from these regions as foreign investment.
- <sup>133</sup> Here the term “foreign investment” rather than “foreign direct investment” (FDI) is used because detailed statistics by source and destination areas are available only for foreign investment rather than foreign direct investment for some years. The former includes foreign direct investment, and other foreign investment in the forms of shares sale, international lease, compensation trade, and processing and assembly, with FDI accounting for 94 per cent of total foreign investment in China during the period 1979–2004.
- <sup>134</sup> This part of the paper draws on materials from the author’s paper Migration and the development of source areas: Evidence from China in K. Tamas and J. Palme (eds.), *How Migration Can Benefit Development*, pp. 167–180. Institute for Futures Studies: Sweden, 2006. The authors would like to acknowledge the editors of the book for permitting the use of the materials.
- <sup>135</sup> In Chinese “Rongqiao” literally means Fuqing’s overseas Chinese.
- <sup>136</sup> Zhu, Y., (1999). *New Paths to Urbanization in China: Seeking More Balanced Pattern*. New York: Nova Science Publishers. More details can be seen in this publication.
- <sup>137</sup> DIGESTYC (2008). Home survey on multiple purposes. Department of Statistics and Censuses.
- <sup>138</sup> While there are many definitions of social network a working definition for this paper could be the following: A social network is a social structure made up of individuals (or organizations), which are tied (connected) by one or more specific types of interdependency, such as friendship, kinship, common interest, common origin, financial exchange, dislike, sexual relationships, or relationships of beliefs, knowledge or prestige. The definition of social network is rapidly evolving as the consequence of the use of web interfaces, mobile telephone other technological communication means.
- <sup>139</sup> Gregorian and Tigran (2008). *AM Microeconomic Implications of Remittances in an Overlapping Generations Model with Altruism and Self-Interest*. IMF Working Paper, WP/08/19. Washington DC.
- <sup>140</sup> Data based on Stock Estimates of Overseas Filipinos (OFs) by the Commission on Filipinos Overseas. OFWs refer to contract-based, including temporary and irregular, workers. Irregular workers are those working abroad with incomplete employment documents. 2008–2009 stock estimates are already available, however, the data series are based on a different methodology.
- <sup>141</sup> GDP data based on the report of the National Accounts of the Philippines (NAP) for 2009.

- <sup>142</sup> Bangko Sentral ng Pilipinas, data on OF remittances coursed through banks, 2009.
- <sup>143</sup> Estimates used in Philippine balance of payments (BOP) compilation, partially based on results of the annual Survey of Overseas Filipinos conducted by the National Statistics Office.
- <sup>144</sup> Asian Development Bank. (2004). Enhancing the Efficiency of Overseas Workers Remittances.
- <sup>145</sup> Bangko Sentral ng Pilipinas (2010). Consumer Expectations Survey. Fourth quarter 2010.
- <sup>146</sup> Yang, Dean (2004). International Migration, Human Capital, and Entrepreneurship: evidence from Philippine Migrant's Exchange Rate Shocks. Research Program on International Migration and Development, DECRG, Policy Research Working Paper 3578. World Bank.
- <sup>147</sup> Yang, Dean (2008). International Migration, Remittances, and Household Investment: Evidence from Philippine Migrants' Exchange Rate Shocks. *Economic Journal*. Vol. 118, 2008b.
- <sup>148</sup> Under Executive Order (EO) No. 446 dated 12 July 2005, former President Gloria Macapagal-Arroyo tasked the Secretary of Labour and Employment to oversee and coordinate the implementation of various initiatives for OFWs. EO No. 446 also designated the BSP to chair the subgroup on bank-related initiatives.
- <sup>149</sup> BSP's Initiatives to Reduce Remittance Charges and to Improve the Overseas Filipinos' Remittance Environment, as of 15 February 2011. BSP-Department of Economic Statistics, 2011.
- <sup>150</sup> BSP Economic and Financial Learning Centre (2010). The BSP Economic and Financial Learning Programme (BSP-EFLP). Annex B.
- <sup>151</sup> BSP-Department of Economic Statistics (2011). Summary of Completed Financial Learning Campaigns, 2006-2011.
- <sup>152</sup> OECD (2010). Home Aid Statistics, News and Events. Dated 14th April 2010. See [http://www.oecd.org/document/0,3746,en\\_2649\\_34447\\_44981579\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/0,3746,en_2649_34447_44981579_1_1_1_1,00.html).
- <sup>153</sup> MPI (2009). Data Hub, Global Remittances Guide.
- <sup>154</sup> Ibid.
- <sup>155</sup> Bank of Ghana (2010).
- <sup>156</sup> Bank of Ghana – Balance of Payments data. (2010).
- <sup>157</sup> Bank of Ghana (2010).
- <sup>158</sup> Zan (2004). One Nation, One People, One Destiny' – The Ghanaian Diaspora's Contribution towards National Development Using Diverse Channels. SEND Foundation for West Africa.
- <sup>159</sup> Ibid.
- <sup>160</sup> Kweyey F. (2010). Remittances and Raising Capital through the Diaspora. Paper presented at the United Kingdom – Ghana Investment Forum, 8th July, London, United Kingdom organized by Developing Markets Associates Ltd.
- <sup>161</sup> [www.databankgroup.com/assetmanagement/homecoming-account](http://www.databankgroup.com/assetmanagement/homecoming-account). [www.modernghana.com](http://www.modernghana.com).
- <sup>162</sup> Sophism (2003). A Case for Remittance Policy in Ghana. 12 of September of 2003. See [www.ghanaweb.com](http://www.ghanaweb.com).
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- <sup>164</sup> World Bank (2011). Migration and Remittances, Fact book 2011.
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- <sup>169</sup> Ibid.
- <sup>170</sup> Ibid.
- <sup>171</sup> Rapport et études du Haut Commissariat au Plan du Maroc et Ministère chargé de la Communauté Marocaine Résident à l'Étranger (2010).
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