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The development dimension of migrants transfers

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THE DEVELOPMENT DIMENSION OF MIGRANT TRANSFERS

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Abstract

The current appreciation of remittances as a development tool is recent and several questions on how best to capture their development impact remain. This working paper addresses some of the fundamental questions pertaining to the role of remittances in the migration-development nexus. Apart from offering a conceptual tool for understanding of the importance of remittances for developing countries, the paper gives a global overview of various types of remittance flows, the dynamics of such flows and their possible developmental impact on developing countries, including those experiencing conflicts. The paper concludes by offering some ideas on how appropriate policy measures could contribute to making remittances into an effective development tool.

Introduction

International migration transforms not only the destiny of individual migrants but also the conditions of their families in the respective sending communities. Remittances have become the most visible evidence and measuring stick for the ties connecting migrants with their societies of origin. Because of their importance to the economy of labour exporting countries, monetary remittance flows nevertheless tend to be the only measured aspect of the migration experience. In 2003, the Global Development Finance Annual Report took formal notice of remittances as a source of external development finance for the first time. Estimated at over US$ 72 billion in 2000, remittances to developing countries represent a large proportion of world financial flows and amount to substantially more than global official development assistance, more than capital market flows and more than half of foreign direct investment flows to these countries. To underline their importance for the developing world, it is estimated that in 2000 60 per cent of global remittances were sent to developing countries. Lower middle-income countries apparently receive the largest amounts, but remittances may constitute a much higher share of the total international capital flow to low-income countries (Gammeltoft 2002). To further underline the development dimension of migrant transfers, remittances seem to be more stable than private capital flows and to be less volatile to changing economic cycles (Ratha 2003:160). It may, therefore, be concluded that monetary remittances play a most important role in the accounts of many developing countries and are crucial to the survival of poor individuals and communities around the world.

The emphasis of development policy is now firmly on poverty alleviation and the achievement of the Millennium Development Goals, which in addition to the eradication of extreme poverty and hunger headline objectives such as health and education, gender equality and empowerment of women, the reduction of infant and child mortality, universal access to safe drinking water and adequate sanitation, and the improvement of the lives of poor rural and urban slum dwellers. Because much remittance research stems from an economic development concern it has centred on determining the volume and the assessment of the contribution to local development through investments in productive activities, the identification of transfer channels and of the costs involved and the determinants driving remittances. Household or community based approaches nevertheless suggest that remittances augment incomes, potentially lift recipients out of poverty and are used to build schools and clinics (Martin et al. 2002). New empirical findings using a data set composed of 74 developing countries (drawn from each major region of the developing world) reveal that, on average, a 10 per cent increase in the number of international migrants in a country's population can reduce the share of the population liv-

ing on less than US$ 1.00 per person per day by 1.6 per cent. Similarly, a 10 per cent increase in the share of a country's GDP can lead to a 1.2 per cent decline in poverty (Page and Adams 2003).

However, despite such evidence, gaps remain in our understanding of how remittances are or can be used to promote development, especially given that existing policy incentives are not generally considered as having been very effective in channeling remittances towards development (Black 2003).

The current appreciation of remittances as a development tool is recent and several questions on how best to capture their development impact remain. This report addresses some of the fundamental questions pertaining to the role of remittances in the migration-development nexus.

The first part of the report offers a conceptual tool for an understanding of the importance of remittances for developing countries. In addition to monetary remittances, generally the main focus of most analyses, the concept of social remittances is introduced. Part 2 then gives a global overview of various types of remittance flows, the dynamics of such flows and their possible developmental impact on developing countries, including those experiencing conflicts. Examples of remittances to countries in conflict are given in Part 3. Part 4 maps the main actors as well as the various transfer systems used. However, although remittances undoubtedly are the most visible evidence of the contribution migrants can make to foster development in their homelands, the sending of remittances is not the only contribution of importance. In order to determine the economic dynamics of migration other areas, such as migrants' business investments, collective support to local development, the transfer of knowledge and ideas as well as their sizeable demand for local goods and services and the national market expansion potential this demand can create, are further explored in Parts 5 and 6. Based on available secondary data, Part 7 gives an overview of the recent attention paid by international development organizations to the effects of remittances and their gradual translation into research and development strategies. The report concludes by offering some ideas on how appropriate policy measures could contribute to making remittances into an effective development tool.

1. A conceptual tool to understand the role of remittances

In order to understand the relationship between remittances and development more clearly, it is necessary to take a closer look at what migrants send back to their countries of origin, the actual mechanisms of transmission used and the factors that determine the impact of such transfers. Given that remittances may have different meanings in different context – and that the precise way in which remittances are conceptualised and measured varies enormously – a few definitions are given below.

Monetary remittances

Remittances are generally defined as that portion of a migrant's earnings sent from the migration destination to the place of origin. Although remittances also can be sent in–kind, the term 'remittances' usually refers to monetary transfers only. In most of the literature, the term is further limited to refer to *migrant worker remittances*, that is, to cash transfers transmitted by migrant workers to their families and communities back home (Van Doorn 2001). While migrant worker remittances probably constitute the largest part of total global remittance flows, this report adopts a broader definition including transfers from refugees and other migrants who do not benefit from the legal status of migrant workers.

Social remittances

Many of the changes that migration gives rise to do not result from monetary remittance flows only. Other kinds of catalysts are also at work, among them *social remittances*. Social remittances are usually defined as the ideas, practices, identities and social capital that flow from receiving to sending country communities. Social remittances are transferred by migrants and travellers or they are exchanged by letter or other forms of communication, including by phone, fax, the internet or video (Levitt 1996). They may affect family relations, gender roles, class and race identity, political, economic and religious participation. Social remittances constitute a so far neglected local-level counterpart to macro-level global monetary and cultural flows, although they are key to understanding how migration modifies the lives of those who remain behind (Levitt 2001). To the extent that social remittances flow together with economic remittances, changes in normative structures and general practices may be pertinent to ensure the continuation of economic remittances.

The advantage of adopting a financial as well as a social definition of remittances is that it allows to understand migration as a social process in which migrants are potent agents of economic, social and political change. As argued by de Haan (2000), this is relevant for the design of appropriate policies as "an understanding of the role of migration may help to make policies more relevant to people's livelihood strategies (…) and may help to devise measures in which migration can be supported, building on the ways in which groups have facilitated migration, and thus build on people's capabilities and assets (de Haan 2000:4).

Intra- and international remittances

Remittances can be transferred within and between countries. *Intranational* remittances are transferred by persons who migrate within their countries of origin (including internally displaced persons), whereas *international remittances* are transferred by migrants who crossed an international border. However, geographic categories may be less important than understanding the role migration plays in the livelihood strategies of the individuals concerned. Assessments of the importance of migration are often based on an idea of different economic areas rather than conceptualizing areas of origin and destination as a single economic space (de Haan 2000). Though migrants from developing countries can potentially earn more by migrating abroad, even within countries wage differentials can be huge and intranational remittance transfer fees are generally lower due to the absence of foreign exchange fees and related financial regulations (van Doorn 2001).

Individual and collective remittances

The bulk of remittances are *individual remittances,* sent by individual migrants; a smaller fraction is sent in the form of *collective remittances* by groups of migrants through community or church groups. The latter form is often organized through *hometown associations* (HTAs) consisting of migrants from the same town or parish in the home country, but also other more or less organized groups, such as refugee groups, ethnic professional groups or even virtual refugee organizations using the internet (e.g. the Somali Forum and the Tamil Eelam), participate in the transfer of collective remittances. One incentive for HTA-based collective remittances is to match HTA moneys with government funding; another approach is to actively solicit and encourage HTA investments in micro-enterprises and job-generating ventures in developing countries (Lowell & de la Garza 2000).

Forms of transfer

Monetary remittances are transferred both formally and informally. *Formal remittances* are sent through banks, post offices, exchange houses and money transfer companies (such as Western Union, Thomas Cook and Money Gram). Formal international remittances can be measured

through the IMF Balance of Payments Statistic Yearbook. *Informal remittances* are generally either hand carried (when going home to visit) or transferred by family, friends or money couriers.[1] Besides, some countries have extensive and efficient systems to facilitate informal transfers, e.g. *Hawala* in Pakistan and Bangladesh; *Hundi* in India. These systems are generally well organized, effective and inexpensive and senders do not need to provide identification (Orozco 2003a). Official estimates of remittances usually do not include money sent through informal channels, leading many experts to believe that they are significantly undervalued (O'Neil 2003).

Box 1: Numbers and statistics on world remittances: estimates or guesstimates?

Remittance data are generally incomplete, imprecise and therefore unreliable. Several factors account for this:

1. The IMF and IBRD remittance figures are significantly lower than those offered by national central banks in various countries. In 2002, for example, the IBRD reported less than US$ 2 billion in remittances to the Philippines, while the Philippine Central Bank reported more than US$ 6 billion.

2. IMF records only include remittances transferred through official channels.

3. Some countries are not included in any international statistics on remittances, as, for example, is the case of Guyana where more than half of the population is involved in international migration and remittances account for at least 10 per cent of GDP.

4. Few if any of the labour-exporting countries keep accurate records on the number of international migrants generated there.

It is generally argued that annual remittances to developing countries have more than doubled between 1988 and 1999, an argument vastly reproduced in the literature (see Gammeltoft 2002). Given the factors mentioned above, we might ask what this figure actually reveals? Does the increase reflect a real increase in terms of more remittances, or should the rise be explained by other factors? Several studies have indicated that migrant remittances are increas-

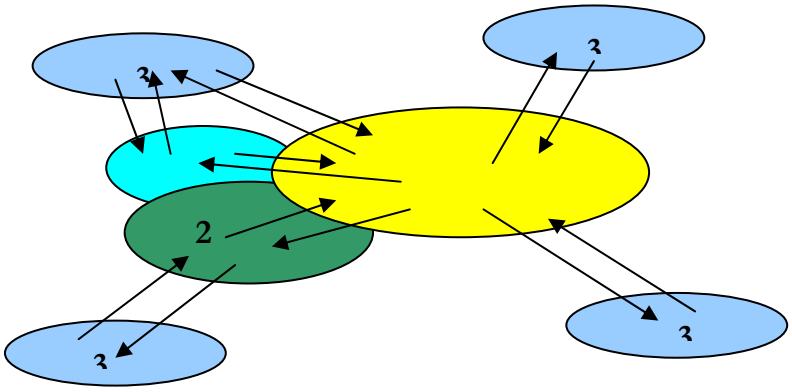
[1] Athukorola (1993) argues that the usual practice to treat all informal remittances as foreign exchange leakages from the labour exporting country is erroneous because the aggregate figure includes two types of remittances that do not show up in official remittance data: 1. Goods imported by return migrants under duty-free allowance facility (or under personal baggage / gift schemes); 2. Saving brought home on return in the form of cash (or travellers' cheques) subject to formal customs procedures and subsequently converted into local currency at local banks (where they will show up as 'tourist expenditure').

ingly transferred through formal channels. To illustrate the magnitude of this trend, a recent IMF study estimated that remittances transmitted through informal channels in the 1980s stood at around US$ 35 billion, and fell to about US$ 10 billion in recent years (El-Qorchi et al. 2002).[2] This suggest that around US$ 25 billion that had previously gone unrecorded by institutions such as the IMF and the World Bank now suddenly appear in the statistics. Another factor explaining the sudden increase could be that the further we go back in time the more inaccurate the data, suggesting that statistical institutions, central banks and the like simply have become more precise in their recording and registration of migrant remittance flows.

Having indicated some of the connections between various types of remittances and development, Figure 1 specifies three domains of importance to current policy development: developing countries of origin, neighbouring countries or countries of first asylum, and richer migrant and refugee destinations in the wider diaspora area. Very crudely, Figure 1 shows the flow of people, resources, information and ideas among these three locations or diasporic domains. Relations and flows may be strong or weak and may vary over time and by type (economic, social, political). Moreover, these flows may be ambiguous: transfers from abroad may at different times and in different ways both alleviate poverty and contribute to social disparities. In conflict/post-conflict societies remittances may both contribute to reconstruction and help perpetuate conflict.

[2] This decline in the level of informal transfers was mainly due to the disappearance of the black market exchange premiums in the developing countries (El-Qorchi et al. 2002).

Figure 1: Migrant and refugee diasporas: sites and flows



1 Homeland or country of origin.
2 International migration destination within region/first asylum or neighbouring country.
3 International migration further afield/countries of resettlement/wider diaspora.
⟶ Flows of people, money, information and ideas

Source: Model adopted from Van Hear's refugee diaspora model (2002).

2. Global remittance flows

A recent study commissioned by the Multilateral Investment Fund of the Inter-American Development Bank (Orozco 2003a) estimates the worldwide flows of remittances by region in 2002. The study concludes that Latin America and the Caribbean are the main recipient areas of remittances in the world, receiving about 31 per cent of total flows. South Asia is the second-largest remittance recipient area (20%), followed by the Middle East and North Africa (18%), East Asia and the Pacific (14%), Europe and Central Asia (13%) and Southern Africa (5%).

An interesting finding is that one or two countries in each region receive over 50 per cent of the total flow to the region. For example India, the world's largest remittance recipient country, accounts for 73 per cent of the total flow to South Asia; Mexico accounts for 34 per cent of the flow to Latin America and the Philippines for 43 per cent of the flow to East Asia and the Pacific. Another interesting finding is that sixteen countries share three-quarters f the total global flows:

Table 1: Remittances to major remittance receiving countries (2000)

Country in Region	Share	
	Region	Worldwide
India	73%	15%
Mexico	34%	8%
Philippines	43%	8%
China	43%	8%
Turkey	27%	6%
Egypt	35%	5%
Spain	20%	4%
Portugal	19%	4%
Morocco	20%	3%
Bangladesh	12%	2%
Jordan	17%	2%
El Salvador	9%	2%
Dominican Republic	9%	2%
Greece	10%	2%
Nigeria	65%	2%
Yemen	12%	2%
Main countries		75%

Source: Orozco 2003a, using data from central banks of each country and World Bank, World Development Indicators 2002.

The Global Development Finance 2003 Annual Report makes a very conservative calculation of remittances based on official IMF balance of payments data. Even so, the report estimates that US$ 72.3 billion went to developing countries in 2001. Of these, Latin America received US$ 25 billion (Mexico alon 9.9 billion); South Asia US$ 16 billion (India alone US$ 10 billion); and East Asia US$ 11 billion (the Philippines alone US$ 7 billion). (For an overview of remittance flows, see annexes 1 and 2.)

2.1 Remittances to Latin America

The relationship between development and migration and the resulting effects of economic ties between diasporas and home country economies is most thoroughly researched in the case of Latin America. Evidence suggests that the stream of remittances going to Latin America and the Caribbean has continued to grow year by year and, according to the IABD, amounted to some US$ 32 billion (or 2%) of the region's GDP in 2002. From 1996 to 2002 remittances were more than double the total of ODA. Monetary remittances are important for Latin America as a whole, but even more so for the poor and conflict ridden countries of Central America and the Caribbean. According to Ramamurthy (2003), the major beneficiaries of remittances throughout the 1990s were Mexico, the Dominican Republic, El Salvador, Brazil,

Ecuador, Peru, Colombia, Jamaica, Guatemala and Honduras. The present situation is reflected in Table 2 below.

Table 2: Remittances to Latin America and the Caribbean 2001

Country	Remittances (US$ millions)	As % of GDP	As % of Exports
Mexico	9,815	1.7	6.5
Brazil	4,000	0.4	4.0
Colombia	2,270	2.1	2.4
Dominican Republic	1,939	10	27
El Salvador	1,935	17	60
Guatemala	1,579	3.1	16
Ecuador	1,432	9	20
Jamaica	1,200	15	30
Peru	1,100	1.7	10.6
Cuba	930	5	40
Haiti	810	24.5	150
Honduras	720	7.5	17
Nicaragua	610	22	80
Venezuela	220	-	-
Costa Rica	195	-	-
Bolivia	93	1.25	6.71
Guyana	90	-	-
Trinidad & Tobago	49	-	-
18 countries	28,987.00		

Source: Central banks, adapted from (Orozco 2003c).

Remittances to *El Salvador* have exceeded the total amount brought in by exports, whereas they represent over half the value of exports from *Nicaragua*. In *Mexico*, migrant remittances are estimated to equal the revenue generated through agricultural exports. They represent around 80 per cent of FDI, 6 per cent of tourist revenues, and 60 per cent of *maquila* production. The Mexican Central Bank estimated that in 2000 alone, migrants sent US$ 6.5 billion, an amount that reduced the deficit of the national balance of payments by 27 per cent (Guarnizo 2003). Remittances to *Colombia* were the equivalent of half of the country's coffee exports, while those to the *Dominican Republic* were three times agricultural exports and over half the value of total exports. Remittances from Dominicans abroad continue to be a major source of income for the country. Estimated at US$ 1.9 billion in 2000, remittances equal 70 per cent of revenues from tourism, the fastest growing economic sector in the region (IOM 2003). Dominican migrants living in the United States send the largest share, but remittances sent by domestic workers in Europe reach the poorest regions (Sørensen 2002). Remittances from Europe to Colombia have escalated rapidly during recent years. In 2002, Colombian migrants

in Spain came in as the second largest remittance sending group, accounting for 25.3 per cent of remittances flowing out of Spain, only surpassed by Ecuadorians who accounted for 26.2 per cent (Aparizio & Gímenez 2003).

Research on Latin America finds that remittances have positive as well as negative effects on the development of the countries of origin. Sceptics argue that remittances have led to disparities between recipients and non-recipients, conspicuous consumption, decreased local food supplies due to reduced agricultural production, rising prices and to a vulnerable economy (Meyers 1998). However, others find that studies that question the development value of remittances ignore the indirect effects that consumer spending has on economic production and income in countries such as Mexico. Thus, positive multiplier effects of remittances are found both directly (as productive investments) and indirectly (in expanding consumption) (Guarnizo 2003).

In regard to social remittances, a recent study of the local impact of Dominican transnational migration concludes that changes in gender roles and ideologies as well as experiences with different institutions, such as legal systems abroad, are transferred back to the home communities. Many Dominican women work for the first time when they go to the United States. Here, many husbands start helping with household chores and spending more time at home rather than on the streets with friends. Dominicans also discover that they cannot bend or avoid the law as easily abroad as they did in the Dominican Republic. They see American law as a well functioning organism that, in some instances, protects them (e.g. in work-related accidents). These experiences are transferred to their home communities, for example via telephone calls, letters or the occasional visit. If and when Dominican migrants return, they may behave differently than before they migrated and non-migrants may begin to emulate them. However, less positive aspects are also seen: many local adults have stopped working altogether because the economic remittances exceed any local earnings. Growing numbers of the younger generation have lost interest in education with the excuse that they will eventually migrate and will not need what they learned in school (Levitt 2001). Similar effects are likely to be found in other Latin American countries with high out-migration rates and well established 'migration cultures'.

2.2 Remittances to Asia

Asia represents a remittance market of comparable size to Latin America, but may differ insofar as the major labour exporting countries (India, Pakistan and the Philippines) are more diverse and their overseas communities are more segmented by occupation, education and country of residence. In addition to overseas destinations in North America and Europe, for

example, Asian migrant labour goes to the large formal contract labour market in the Middle East and, to a smaller degree, to Hong Kong, Japan and Singapore.

In 2000, the main remittance receiving countries in Asia were India, the Philippines, the P.R. of China, and Bangladesh. According to the Asian Development Bank, migrants from the Asia-Pacific region remitted US$ 27 billion in 2002. The top recipient was India (with official totals of US$ 10 billion in 2001). India accounted for 62.5 per cent of the inflows to South-Asia, while the Philippines accounted for 58 per cent to East-Asia and the Pacific.

As mentioned previously, estimates nevertheless vary. The World Bank estimates that Filipino migrants send home a total of US$ 6.4 billion a year (other estimates are far higher) and the Asian Development Bank estimates that Pakistani migrants remit US$ 1.6 billion annually (although the Pakistan minister of finance believes the figure to be US$ 6 billion, Berthelsen 2003).

Table 3: Ranking Asian countries by net remittances, US$ billion

1994	1995	1996	1997	1998	1999	2000
India 5.5	India 5.8	India 10.1	India 10.1	India 9.4	India 11.0	India 9.1
Philippines 3.3	Philippines 5.2	Philippines 4.8	Philippines 6.7	Philippines 5.1	Philippines 6.8	Philippines 6.1
Pakistan 1.7	-	Thailand 1.8	China, P.R. 4.3	Bangladesh 1.6	Bangladesh 1.8	Bangladesh 1.9

Source: IMF Balance of Payment Statistics Yearbook 2001

The aftermath of the Asian economic crises made many countries more dependent on migrant remittances for investment and exchange, at the same time as many opportunities for finding employment abroad retracted. Following the crisis, Thailand, Indonesia and Sri Lanka announced increases from remittances. However, in the case of Bangladesh overseas workers declined by 30 per cent from 1997 to 1998 (mainly due to the economic crisis in Malaysia) and, although remittances increased slightly in 1998, the first part of 1999 showed a significant downturn (Rogers 1999).

The Indian diaspora, 20 million strong and spread across all continents and most countries of the world, is a great potential for national development. In a major initiative, the government of India established a High Level Committee on the Indian Diaspora to prepare a comprehensive report on the Indian diaspora, including recommendations and a new policy framework for creating a more conducive environment to leverage the financial and human capital of the

diaspora. The report, presented in January 2002, concludes that both monetary and social remittances are substantial at household, community and national level. Remittances to India from the Gulf (overwhelmingly sent by low skilled workers) have long been recognized as a significant contribution to India's balance of payments. Remittances from the UK are also substantial, but even more significant contributions are made by wealthier migrants who have established individual trusts or charities for projects pertaining to health, education or infrastructure in their home states or villages in India. In times of national crises or natural calamities, diaspora organizations have raised substantial contributions for relief and rehabilitation of the victims.

The Indian diaspora in North America also contributes financially to Indian development, such as relief for the Orissa cyclone and the Latur and Gujarat earthquakes, higher technical education and innumerable charity causes. Indian migrants have further catalysed demand for Indian goods and services in their countries of settlement, ranging from food to fashion to the Indian entertainment industry. The share of FDI made by the Indian diaspora in the total cumulative FDI approved since 1991 amounts to 3.78 per cent and to 9.15 per cent of the actual inflows. Finally, the Resurgent India Bonds floated in 1998 and the India Millennium Deposits floated in 2000 resulted in the mobilisation of about US$ 4.2 billion and US$ 5.51 billion, respectively. The report acknowledges that many members of the Indian diaspora have risen to high ranks and therefore can play an influential role in enhancing investments, accelerating industrial and agricultural development and boosting India's international trade and tourism efforts. The High Level Committee of the Indian diaspora is convinced that the reserves of goodwill among its diaspora are deeply entrenched and waiting to be 'tapped' if the right policy framework and initiatives are adopted by India (Indian Ministry of Foreign Affairs 2002).

Like the Indian diaspora, the Philippine diaspora is demographically and geographically complex, spread over approximately 140 countries in the world. Filipinos working abroad have a wide range of skills and include a high percentage of professional and technical workers (35%) and, at the other end of the spectrum, a large segment of service workers, including female domestic workers. This results in a wide range of income and monetary remittance potential. Formal banking channels account for a relatively large share of remittances (estimated between 33%-50%), largely due to the Philippine National Bank's long-standing involvement (Mellyn 2003). The Philippines has passed legislation, created new institutions, boosted the strength of its overseas missions and tightened its laws aimed at ensuring security to its overseas workers. In addition, the government has adopted rules that make assistance rendered by government agencies to migrant workers free of costs, and exempted Filipino workers from the payment of travel tax and airport fees on showing their Overseas Employment Certifi-

cates. Remittances represent a significant inflow of income for poor families, especially for women and children. Some 34 to 54 per cent of the Filipino population is sustained by remittances from migrant workers (Salazar Parreñas 2002). The monetary impact of remittances for households of temporary labour migrants working in Hong Kong, Singapore and the Middle East has been estimated at US$ 3.000 per year between 1992 and 1996. Much was spent on consumer durables such as television sets, washing machines and other home appliances (Jurado 1997 quoted in Ramamurthy 2003).

Our Asia literature search found no analyses of social remittances. In the case of Bangladesh, however, migration is found to actively promote kinship solidarity, dependence upon family and economic cooperation within emigrant communities. Thus, rather than causing social breakdown, migration may feed into, be influenced by, and in turn influence local households and the way in which people perceive them (Gardner 1995). In Sri Lanka, new economic opportunities are also found to transform local, national and international power structures, and the social impact of migration has let to positive changes in family structures, gender ideology, caste hierarchies and class relations (Gamburd 2000).

2.3 Remittances to Africa

Compared to other regions in the world, African remittance data are generally scarce or suffer from a lack of reliability. According to a recent World Bank study, this may in part be explained by the relatively low share of migrant remittances flowing into the African continent (15%), and the even lower share flowing into Sub-Saharan Africa (5%).[3] Contrary to remittances to Latin America and Asia, remittances to Africa have grown only little and, as a result, their relative share has declined. But, as the report also states, this is partly due to the large data gaps for African countries in international remittance statistics (for Sub-Saharan Africa, IMF remittance data is only available for about one-third of the countries). Another factor is the high prevalence of informal flows (Sander 2003).

In 2001, Morocco, Egypt, Tunisia, Sudan and Uganda were the top five African remittance receiving countries. In Sub-Saharan Africa the single largest receiver was Nigeria, followed by Lesotho, Sudan, Senegal and Mauritius (Sander 2003:6). IOM's World Migration Report 2003 reveals a significant increase in the level of remittances to selected African countries. In the

[3] For Sub-Saharan Africa, the share of total remittances to developing countries has dropped from around 8% in 1980 to 5% in 2002, reflecting primarily the growth in flows to other regions rather than a reduction in flows directed towards Africa (Sander 2003:5).

cases of Cape Verde, Ghana, Madagascar, Mali, Morocco and Tunisia the amount of annual official remittances increased by approximately 100 per cent from 1980 to 1995.

IOM concludes that in the African context also, remittances represent considerable financial inflows and therefore are an economic reality not to be neglected. In Benin the average for the years 1980 to 1999 amounts to 4.5 per cent of GDP, in Burkina Faso to 5.8 per cent and in Cape Verde to 13.5 per cent. Moreover, remittances seem to be even more important if informal remittances are taken into account. Evidence from Sudan and Egypt suggests that the informal remittances double, and in some cases even triple the total amount of migrants' financial transfers. Given that the banking systems in many African countries are still inadequately developed, it can be safely assumed that informal remittances are very important in Africa (IOM 2003:227).

Table 4: Annual remittances to selected African countries (in US$ mio.)

Country/Year	**1975**	**1980**	**1985**	**1995**	**1999** (estim.)
Egypt, Arab Rep.	2696.00	3496.20	3742.60	3279.00	3772.40
Morocco	1053.69	967.16	2006.35	1969.50	1938.11
Nigeria	12.80	10.07	10.01	803.55	1301.06
Tunisia	318.55	270.82	551.04	679.88	761.24
Senegal	74.78	55.05	90.83	86.49	92.78
Mali	59.40	67.00	106.92	112.11	83.81
Benin	77.00	38.06	88.77	92.43	72.81
Cape Verde	40.06	20.76	56.03	103.95	68.53
Burkina Faso	150.27	125.88	139.67	88.73	66.74
Cameroon	11.00	46.70	60.60	28.24	-
Ghana	0.50	0.40	6.00	17.30	30.7
Niger	5.88	2.10	13.06	6.34	7.24
Madagascar	0.38	4.57	4.48	8.95	7.19
Lesotho	-	-	-	0.79	0.69
Togo	9.93	15.41	26.87	15.02	0.03
TOTAL	4510.24	5120.18	6903.23	7292.28	8203.33

Source: IOM 2003, using data from World Bank 2001.

As elsewhere, remittances are used for consumption as well as for investment in human capital (education, health, better nutrition). Thus, migration and the concomitant remittances are part of a livelihood and poverty reducing strategy at the individual and household level. In Zimbabwe, households with migrants are found to have higher educational levels than households without migrants; in Burkina Faso it is estimated that international remittances reduce the poverty headcount of rural households by 7 per cent and of urban households by 3 per

cent (Lachaud 1999, quoted in Sander 2003). A recently published study (primarily using data from the 1980s and early 1990s) suggests that remittances have been positively associated with improvements in rural areas in Botswana, Malawi, Mozambique, Swaziland, the Sahel and Zambia. Investments in cattle, housing, education, agriculture, grinding mills, tools and equipment, wells, transport vehicles and the establishment of enterprises are reported (Ramamurthy 2003).

If financial remittances to Africa are highly underreported and their developmental impact therefore underestimated, this is even more so in the case of social remittances. Nevertheless, a range of diasporic organizations involved in African development (including HTAs, ethnic, alumni, religious and professional associations, investment groups, political groups and others) participate in community-to-community transfers related to identity building, lobbying in current country of residence regarding issues related to the homeland and participation in post-conflict reconstruction and the development of new democratic structures (Mohan and Zack-Williams 2002; Koser 2002). Evidence from West Africa suggests that social capital gained abroad is likely to transform into social remittance transfers upon return, and that returnees generally promote social transformation in their countries of origin. Interestingly, an important aspect of West African returnees' social capital is the strength of contacts (personal and professional) established abroad, contacts that a majority of returnees maintain upon return (Tiemoko 2003).[4] Malian migrants have transferred lessons learned from Western democracies to their home communities. In other case, returning male migrants appear to be reluctant to change traditional gender roles, while others have become more socially and religiously conservative as a result of their own migration experience (Martin et al. 2002).

3. Refugees' remittances

Throughout the last decade, increasing attention has been paid to the potential of *migrant workers'* remittances to countries of origin. Fewer studies have been undertaken to estimate the scale, nature and impact of *refugees'* remittances. Such studies are generally scarce because avail-

[4] Evidence from Somaliland suggests that visiting and returned refugees from Scandinavia lobby for changes in educational structures (e.g. the teaching of foreign languages and computer skills), a redefinition of clan and elderly structures to include human rights principles and, in some cases, the protection of girl children from circumcision (Sørensen & Van Hear 2003, personal communication with Anders Knudsen and Nauja Kleist).

able data on refugee remittances are very patchy and because for countries experiencing conflict and generating even more refugees, data collection is difficult, even an impossibility. Second, to the extent that such data exist, it is not possible to disaggregate the contribution made by refugees from that of other migrants. A third difficulty arises from the fact that refugees in richer countries may remit both to the homeland and to neighbouring countries of first asylum to support their relatives, making their contribution more diffuse than that of other migrants (Van Hear 2003). However, since remittances sent by refugees may serve many of the same purposes as migrant worker remittances, they should be included in global analyses of the development dimensions of migrant transfers.

The limited evidence available on refugees' remittances suggests that these transfers are used in ways similar to those sent by economic migrants to people at home in more stable societies: for daily subsistence needs, health care, housing and sometimes education. Paying off debt may also be prominent, especially when there have been substantial outlays involved in leaving to seek asylum abroad, or when assets have been destroyed, sold off or lost during conflict. Expatriates may also fund the flight abroad of other vulnerable family members. This may not necessarily involve monetary transfers back home, but rather payments for tickets, to migration agents, for documents, for accommodation, and to meet other costs incurred during and after travel (Van Hear 2003). In addition, evidence suggests that a sizeable part of refugees' remittances have been used to reconstruct home countries after years of civil war or natural catastrophes, such as hurricanes and earthquakes (Martin 2001).

In post-conflict countries such as Afghanistan and Somalia, where little or no formal financial infratructure exists, informal remittance systems may help maintain entire payment systems and channel external funds for reconstruction from the diaspora (DFID 2003). In the case of Somaliland, remittances are an important factor in the livelihoods of many urban dwellers, seen not least in the proliferation of *hawilad* branches and sub-branches in returnee neighbourhoods. However the volume and distribution of remittances is difficult to substantiate, let alone to quantify, given the local reluctance to divulge such information. When remittances are reported by returnees, quite substantial sums appear to be received; US$ 100 at a time is commonly reported, which goes a long way in the Somaliland setting. It is likely that remittances are unevenly distributed, since poorer households do not have the resources needed to send members to places (mainly in western countries) where earnings or welfare provisions are sufficient to allow the sending of money home. At the same time, there is more evidence of diaspora investment in the public sphere, particularly in hospitals and educational institutions, in urban areas rather than in rural settings.

Fewer rural households appear to receive remittances than those in urban settings, and on a less regular basis. The uneven distribution of remittances is therefore likely to be accentuated and more visible in rural than in urban areas. Because rural receivers of remittances are fewer, their relative wealth tends to be more apparent. The differences between those who receive remittances and those who do not are seen most prominently in the standards of housing. The issue of remittances appears to be also more socially divisive in rural than in urban settings. A study carried out by DIIS for the Danish Refugee Council in Somaliland found that those who do not receive remittances often refer to 'selfishness' and 'dependency syndrome' among recipients of remittances, and complain that little or nothing from such transfers enters the public sphere (Sørensen and Van Hear 2003).

Again, in the case of Somaliland considerable numbers of Somalilanders from the wider diaspora have been coming back over the last few years to see if they could again live in Somaliland. Only a minority, usually those motivated by the idea of rebuilding the nation have made a commitment to stay. These have taken up roles in government, aid agencies, non-government organizations, health care, education and in business (notably money transfer) and are putting their energy and resources into reconstruction. Others from the diaspora understandably wish to retain their connection to the country of asylum and their aspirations are more privately focused. Only those who have gained citizenship or at least secure residence in western countries are likely to return either temporarily or permanently. There is no escaping the fact that, on the whole, Somalilanders in the wider diaspora come from better endowed households than those who have been refugees in Ethiopia or displaced within Somaliland (Sørensen and Van Hear op. cit.).

Somaliland is seen by many in the diaspora as a country of opportunity where commercial regulations are minimal and the scope for entrepreneurship is wide open, particularly as so much that is consumed has to be imported. As the perceptive 2001 UNDP report points out, the civil war achieved what the structural adjustment programmes of the 1980s did not, that is, economic deregulation that enabled the expansion of the private sector. However, the conditions enabling an environment conducive to the activities of the diaspora and other businesspeople are those which spell poor conditions, in terms of services for example, for the population at large.

Nevertheless, the diaspora also face constraints. Family and kinship links, while providing opportunities, are also a source of draining obligations, such as demand for remittances. Diaspora attitudes to the family based in Somaliland are therefore highly ambivalent. Sending remittances can be a large drain on the resources of those who have employment in the west,

and even more so for those who do not; even those drawing welfare benefits are expected to send money when they can ill afford to. Such demands work against social mobility in the host country and also make it very difficult to accumulate capital to set up businesses back home (Sørensen & Van Hear 2003).

Box 2: Remittances and the war on terrorism

The US Treasury, the World Bank, regional financial institutions and national governments have for the last two years focused attention on the linkage between informal remittance systems and terrorist financing/money laundering. The consensus strategy is not to drive informal remittances underground, but to regulate them to formal sector standards as much as possible and to channel a much higher percentage of remittances through the formal sector (Mellyn 2003).

The efforts to crack down on the financing of terrorism have affected the volume of informal remittances and large numbers of migrants have begun to look for formal banking channels to remit funds (Ratha 2003: 165). Bézard (2002) estimates that the market share of informal transfers in developing countries will fall from 45 per cent in 2001 to 34 per cent in 2006, mainly because of pressures faced by informal networks in the western world due to the war on terrorism.

The war on terrorism has disrupted a few informal remittance channels, specifically those involving the Middle East, Indonesia and the Philippines. The disruption of informal Somali remittance networks is expected to have a huge negative impact on recipients in both Somalia and Somali refugees in neighbouring countries (Horst and Van Hear 2002).

4. The main actors

This far, most studies have focused on the senders and recipients of remittances as the principal actors. However, with the surge in remittances, new actors and activities are emerging with direct as well as indirect implications for development. If the attention directed to remittances is to translate into development strategies, a variety of transnational actors must be included in the analysis:

Senders

Migrant workers and refugees remit to their families and, as such, are the main actors. Apart from monetary remittances migrants often bring substantial sums and goods during their occasional visits home. Remittance senders may respond to particular crises in their home communities, but more often the amount and its use are negotiated between members of the wider transnational household. Overall, senders display both altruistic and self-interested motives. Women and men may have different motives for remittances, for example related to household structures, but the different rules regulating inheritance may also influence remittance patterns. Social remittance transfers may also vary according to gender. Based on the general observation that men and women spend remittance income differently, several studies are pointing to gender as an area in need of further research DFID 2003).

Receivers

Receivers of remittances are usually conceptualized as dependent family members remaining in the sending areas. As argued above, however, refugees settled in caps also may receive monetary transfers from the wider diaspora. Remittance receivers allocate the received funds to various purposes. They become agents of development when the money received is spent on improving the welfare of the household through better health care and education, and/or when transfers are used to create new markets. Evidence suggests that remittances are first spent on family maintenance and improved housing and only at a second stage are they invested in productive activities, including the improvement of land productivity. Poor migrant households obviously need more time than the better off to move from stage one to two. Several analyses nevertheless suggest that many migrant households manage to put up to 10 per cent aside for savings (Orozco 2003b).

Hometown and diaspora associations

Hometown and diapora associations consist of groups of migrants from the same local community or country who, through their activities, maintain formal links to their village, urban area or nation. Such links may be social, cultural, political, religious or economic in character. Associational activities can be of an altruistic as well as an investment character, can be more or less formally organized and can be either sporadic or regular. A common trait for most hometown or diaspora organizations is that their economic base is often quite modest. Anyway, towns or villages connected to HTAs may have better roads, electricity and better employment opportunities. The increase and spread of such associations indicates that they are important development agents and therefore should be included in any analysis of the development dimensions of migrant transfers.

Market actors

Remittances are transferred through various channels including banks, post offices, money transfer companies such as Western Union and Money Gram, and formal as well as informal transfer services. At present, the market is experiencing substantial growth in the volume of remittances carried, the number of carriers, the diversity of services provided and the entry of non-traditional players such as credit unions. A recent US lawsuit against Western Union and other major players have made Western Union introduce programmes that increase assistance to and cooperation with Latino migrants and organizations in Latin America (Orozco 2000). Some spill-over effects can also be found in Europe. The first European meeting for Dominican migrant associations held in 2002 in Spain was sponsored by Western Union.

Governments

Increasingly source country governments are aware that programmes aimed at assisting the development of formal migrant organizations and encourage their membership to remit and invest in their home countries can stimulate remittances. Concrete attempts include a range of services to migrants residing abroad and helping to channel remittances towards local development projects, e.g. by establishing matching funds programmes. Mexico seems to be at the forefront with such initiatives (e.g. the 3 for 1 matching funds schemes). Other attempts involve the granting of special rights to migrants (including dual citizenship) to promote their re-/integration into the national project. However, as recently stated by the managing director of the World Bank, Dr. Mamphela Ramphele, it remains the central responsibility of developing country governments to 'do their part', including progress on finance sector reform, corporate governance, anti corruption and other related issues (DFID 2003).

Transfer systems

Senders as well as recipient of remittances lose substantial sums to fees and other transaction costs. However, if seriously addressed by appropriate policies, competition between growing numbers of commercial transfer companies may lead to lower transfer costs and, consequently, a higher development impact (Orozco 2003a).

Research in transfer systems is relatively recent and has primarily concerned itself with the pros and cons of formal and informal channels, respectively. Informal channels, such as *hundi* or *hawala,* operate outside formal and regulated bank and finance systems, charge half or less in transaction fees, often have a larger geographical coverage than formal agents, not least in conflict and war ridden areas (Black 2003). Banks and larger international companies, such as, e.g., Western Union, are generally more expensive than informal services. But the market is changing, and changing fast. For example, a recent comparative study of the transfer costs of

remitting to 11 low income countries in Africa, Asia and Europe shows that banks have become considerably cheaper than international transfer companies during the last couple of years (Orozco 2003b). This suggests that some banks have become aware of a new potential market, have introduced lower transfer fees and are slowly beginning to offer additional services such as special account and credit programmes to attract migrant customers.

5. Remittance dynamics

Whether monetary or social, remittances represent the social ties of solidarity, reciprocity and obligation that bind migrants and their families and communities back home together. Initially, this long-distance solidarity may have a narrow scope of action (as individual migrants' intent is mainly to benefit kin and friends). Over time, however, remittances may become a macroeconomic factor that spawns vast effects in the countries of origin and beyond (Guarnizo 2003:7).

Several micro- and meso-level economic studies indicate that the amount and/or character of transfers depends on *context*, i.e. legal status of migrants, the job market available to migrants, living expenses in the country of destination and the number of, and the relation to, dependants back home – the latter pointing to the importance of the household as the relevant unit for the analysis of individual remittances. Other additional factors include: the number of workers abroad, wage rates, economic activity in host and home countries, exchange rates, relative interest rates between home and host countries, political risk factors, facilities for transferring funds, the gender composition of migrant households in home and host countries, marital status, household income level, employment status and occupational level of household members in home and host countries, length of stay abroad and the occupational level of migrants (Russell 1986).

Table 5: Determinants and intermediate effects of individual remittances

Potential determinants of remittances	Expected direction of relationship	Available pool of remittances	Decision to remit or not	How to remit	Amount to remit	Uses
Number of workers	+	X				
Wage rates	+/-	X				
Economic activity in host country	+	X				
Economic activity in source country	+	X				
Exchange rate	+/-		X	X		
Relative interest rate between countries	+/-	X	X			
Political risk factors in source countries	-	X				
Facility of transferring funds	+	?	X	X		
Ratio of females in host country	-		X		X	
Years since out-migration	+/-		X		X	X
Household income level	-		X		X	X
Employment of other household members	-		X		X	X
Marital status	+		X		X	?
Level of education	-		X	?	X	X
Occupational level of migrants	-		X		X	X

Source: Russell 1986, quoted in Ramamurthy 2003.

In the case of collective remittances, additional factors such as the establishment of residential migrant communities abroad and level and form of organization should be taken into account.

Macroeconomic studies indicate that although remittances are affected by the economic cycles of source and host countries, they often provide a significant source of foreign currency, increase national income, finance imports and contribute to the balance of payment. While other capital flows tend to rise during favourable economic cycles and fall in times of economic downturn, remittances appear to react less violently and show remarkable stability over time (Ratha 2003:160). Thus, countries having a high share of remittances relative to other capital flows might be experiencing more stable inflows of funds (Buch et al. 2003:6). Remittances may also be positively linked to economic growth. Thus, remittances may not only be determined by the migrants' wish to shield their families back home against adverse economic shocks, but may also represent additional funds that can enlarge the pool of capital (Buch et

al. op. cit..:18). Finally, remittances may have a positive effect not only on the quantity but also on the quality of investments. Migrants and their dependants may have a better understanding of local conditions and investment opportunities than foreign creditors and investors (op cit.:8).

However, other studies adopting a macroeconomic approach point in the opposite direction: remittances fail to help the economy and decrease the likelihood of an improved economy in the future. The transfer of funds can be deceptive if it creates dependence among recipients, encourages continued migration of the working age population and decreases the likelihood of investments by the government or foreign investors because of an unreliable workforce. If spent on imported consumer goods rather than locally produced ones, the potential multiplier effect may decrease while simultaneously increasing import demand and inflation (for an overview, see Puri & Ritzema 1999).

However, within the present context of globalization, the macroeconomic effects of migration may be much more complex and multidirectional than studies limiting the dependent variable to remittances would lead one to believe. The following section seeks to address some important additional areas of economic interconnectedness spurred by international migration.

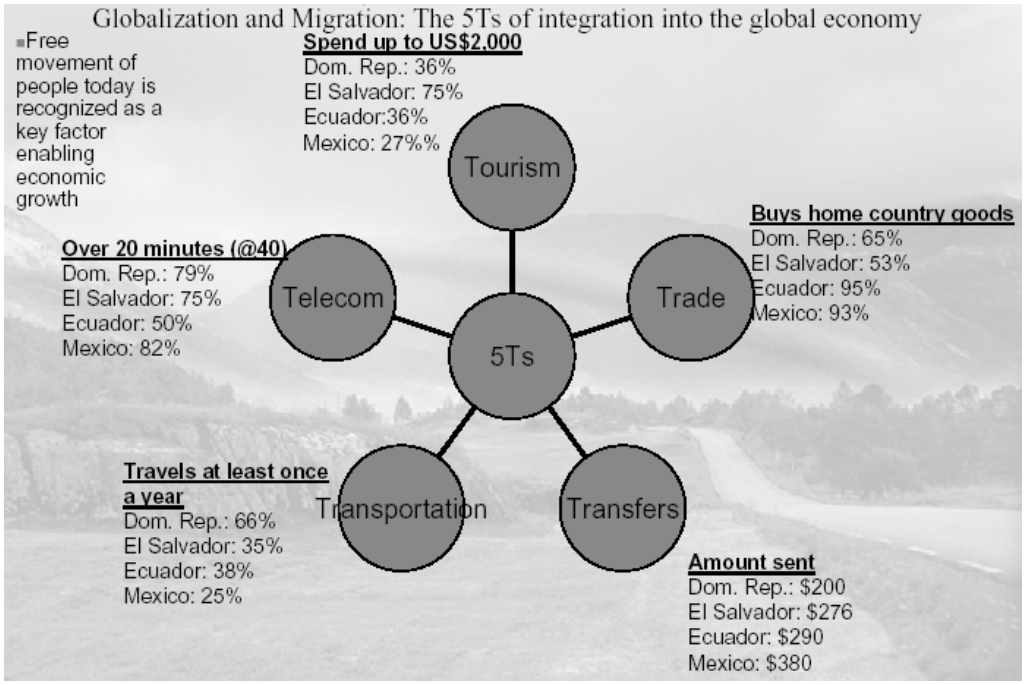
6. Broader macroeconomic dynamics

Development economics has traditionally considered foreign savings as key to increasing a country's capital output ratio. Factors such as foreign direct investment (FDI), official development assistance (ODA), foreign trade, the transfer of technology and, most recently, remittances have entered into these analyses. The broader macroeconomic dynamics of migrants' long-distance transnational ties have nevertheless been neglected by development economists and policy makers, some because of their newness, others because of the dominant unilinear analytical focus (south-north flows of migrants; north-south flows of other transfers). However, the economic effects of migrants' transnational ties and activities are much more varied and multidirectional than hitherto acknowledged.

As Manuel Orozco (2003d) shows, remittances are only a reflection of the broader context of the economic and social contact and networks established between migrants and their home communities. Orozco summarizes the development impact of transnational migration through the '5 Ts': remittance Transfers, Transport, Tourism, Telecommunication and Trade (see Figure 2).

Despite economic and political hardship and tightened immigration controls in the host countries, migrant flows have grown significantly. Countries, such as, for example, Colombia, Venezuela, Argentina (and Ecuador) have experienced larger out-migration over the last five years due to both economic and political reasons and already established diasporas have grown in numbers. As a result, an increasing number of countries receive *remittance transfers* from their growing migrant diasporas. By their very act of migration, migrants generate much of the demand for air *travel* and *tourism* to the region and *telephone calls* between migrants and their dependants now account for the majority of US-Central American telecommunication. The resulting revenue may represent between 40-80 per cent of the total revenues in airline travel and telecommunication. *Trade relations*, especially nostalgic commerce, are growing in importance and will be of even greater importance as more liberalized trade agreements are concluded.

Figure 2



Source: Orozco 2003d.

Following a somewhat similar path, Luis Guarnizo (2003; see Annex Figure 3) notes that migrants contribute financially to home country development through their demand (and purchasing power) for local goods and services. When living and working abroad migrants need a multitude of goods and services supplied by national and non-national providers, small producers as well as large transnational corporations. One dynamic is associated with the migrants' desire to reproduce their culture abroad, a desire that generates a sizeable demand for

goods and services originating in their locality or country of origin. This demand is seized upon by larger businesses and smaller ventures 'back home', for whom the overseas migrant population becomes an extension of their national market and ultimately provides a bridge to national producers to transnationalize their operations.

A second dynamic is generated by migrants' demand and use of services that allow them to keep in touch with family and friends, to oversee business interests, to engage in transnational political action, take vacations and so forth. Hereby migrants become an important market for other sectors of their countries' economy, such as the housing construction industry, tourist industry, music and entertainment industry, as well as mass media. The goods and services demanded by migrants' transnational engagements flow not just in a north-south direction, but also south-north and north-north and south-south.

7. Policy initiatives in the field of remittances

Several donor groups, such as the Inter-American Development Bank, The United States Agency for International Development, the International Fund for Agricultural Development of the United Nations, the Inter-American Foundation, the World Bank and foundations such as the Ford and Rockefeller Foundations have allocated resources that are tied to remittance-related practices (Orozco 2003e:24). Inspired by the Latin American experiences, other donors have begun to explore the development potentials of remittances. These include the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), the Department for International Development (DfID), the Swedish International Development Cooperation Agency (Sida), and Danida.

The Asian Development Bank recently commissioned a consultant report on Worker Remittances as a Development Tool in the Philippines (Mellyn 2003). In northern Europe, the British Development Agency established a Development Research Centre to explore the impact of migration on poverty (led by the University of Sussex) in December 2002; the Swedish Development Agency has taken steps towards knowledge sharing concerning the implication of international labour migration for source countries and communities in the developing world, while the (Swedish) Expert Group on Development Issues is undertaking a study of the effects of international migration on the economic development of lower income, sending countries. Also, the Swiss Agency for Development and Cooperation is taking an active interest in remittances and their development implications.

In 2001, The Migration Policy Institute (MPI), dedicated to the study of the movement of people worldwide was founded in Washington, D.C. In Spring 2002, MPI launched the Migration Information Source (www.migrationinformation.org), a new site that offers current and authoritative data on international migration, as well as analyses from migration experts and dispatches from foreign correspondents around the world.

The Athens Migration Policy Initiative (AMPI) was launched in the summer of 2002 as a joint project of the Greek Ministry of Foreign Affairs and the Migration Policy Institute, and relies on the expertise of over a dozen of the world's leading migration experts. The mission of AMPI is to introduce thoughtful, innovative ideas on migration into the European policy debate (see www.migrationpolicy.org/ AMPI/about.html).

A Global Commission on International Migration was launched on 9 December 2003. The independent body has three mandates: to bring international migration issues to the top of the global agenda, to analyse shortcomings in government and other approaches to migration and to make practical recommendations on how to better manage migration better (see www.portal.unesco.org).

On October 9-10, 2003, DfID, the World Bank and the International Migration Policy Programme hosted a two-day conference on Migrant Remittances: Development Impact, Opportunities for the Financial Sector and Future Prospects, bringing together stakeholders to share their experiences on remittances, and identified best practices based on regional, country and agency initiatives as well as collaborative strategies between interested stakeholders to strengthen the development impact of remittances. Over 100 stakeholders from 42 countries participated in the meeting (for conclusions, see DfID report and Conclusions 2003).

Within the European Union, institutional actors at different levels still grapple to come to grips with the crucial linkages between migration and development. Overall, however, it seems that the 'root cause' approach of the 1990s (aid in place of migration) is giving way to a 'manage migration for better development' approach in the new Millennium (Pastore 2003). In the new policy context currently being worked out by European institutions, a more positive linkage between mobility and development seems to become established. However, it still needs to be seen how this trend will be turned into practice.

8. Development opportunities

The use of remittances as a resource for development requires better answers to some fundamental questions such as: how can governments best estimate the actual flows of financial as well as social remittances; are there better ways to estimate more precisely how remittances are transferred and used, and what alternative ways can be envisioned; to what extent can the multiplier effect of remittances be increased by initiatives to encourage local purchase of locally-produced goods and other productive investments; what can be done to lower transfer costs in order to maximize the level of remittances reaching family members, local communities and ultimately states, and how can governments and international development organizations assist organized groups, such as HTAs, and home villages to make the most effective use of collective remittances for development without impeding local initiatives?

The development potential of remittances can obviously be improved by increasing the total flow of remittances, lowering the transfer costs, reducing the risks involved in transfers and offering more attractive investment alternatives (van Doorn 2001). In addition to monetary remittances' potential for improving economic activities, social remittances may gradually spread to political, cultural and social activities and create transnational communities (Levitt 2001). Such developments can also be encouraged by international development agencies. Over time, transnational communities may turn out to be the most valuable resource for development.

8.1 Remittance mobilization

Strategies aimed at enhancing remittances have to tackle several constraints, but can also take advantage of some opportunities. The effectiveness of policies aimed at enhancing remittances will vary from case to case depending on the degree of the source country's financial, economic and institutional development.

- The presence of a healthy financial system is a first important precondition. The absence of sound credit practices, the deficiency of linkages between banks and enterprises, the weakness of managerial expertise and the lack of adequate infrastructure make banks little able and/or willing to attract new assets and eventually setting up mechanisms for catching part of the remittance flows, and orient them towards investment policies.
- The existence of strong and well-functioning local governments that are able to undertake projects to improve the financial environment and the regulatory system is a sec-

ond crucial factor indirectly affecting remittance enhancement policies. Such efforts could include the strengthening of HTAs, stimulating their commitment to development projects and redirecting collective remittances towards productive as well as social purposes.

- The presence of an enabling economic environment and adequate basic infrastructure is the third crucial factor. Consequently, direct policies aimed at valorising remittances at the local level can be effective only alongside a wider engagement by the wealthier donor countries in programmes promoting institutional capacity building and improving the market and financial environment.

Such measures do not directly affect the flow and use of remittances, but turn out to be crucial for the sustainability of any project aiming at remittance enhancement. Other, more direct measures geared towards enhancing the potential of remittances for development purposes revolve around redirecting monetary remittances towards official channels.

8.2 Enabling monetary remittances towards official channels

From the point of view of the home country's development, remittance transfers through regular banking channels enables governments to exercise control over the use of foreign exchange and encourage a more productive utilization of funds. Policy measures generally recommended include:

- Banking the unbanked. The unbanked are susceptible to higher costs and difficulties on a daily basis, while also lacking the ability to establish credit records and obtain other services from financial institutions. Assisting remittance senders and recipients to participate in the banking industry would help lower transfer fees.
- Banking the unbanked is not only a question of establishing well functioning local banks with a wide geographical coverage (including remoter or conflict areas). Also, banks in recipient countries should be encouraged to reach out to migrant clients, e.g., by providing the legal possibility for undocumented migrants to open bank accounts. Finally, local banks could be encouraged to provide reintegration assistance for returnees related to investments.
- Until such structures are in place, a short-term policy could rely on micro-finance systems. As noted by Puri and Ritzema (1999), channelling remittances through the micro finance system could turn out to be a tool for the indirect financing of local investments. While it has proven difficult to convert successful migrants with no prior business experience into dynamic entrepreneurs, it could be argued that it is more realistic to introduce financial intermediaries to capture migrant remittances as deposits, and to

channel them to existing small and micro businesses, rather than focusing on migrant-specific investment programmes. Besides, tying remittances to micro-lending has the development potential to enhance local markets.

8.3 Capitalizing on the macroeconomic dynamics generated by transnational migration

With reference to Orozco's '5 Ts' and Guarnizo's heuristic typology of transnational economic activies, there seems to be ample scope for facilitating remittance and other investments in community aid, business investments, tourism and nostalgic trade.

- Migrant associations community aid and other philanthropic activities represent a hitherto unexplored area. Closer ties to existing HTAs and support for the creation of new ones could be pursued.
- Few developing countries have a tourist policy aimed at its diaspora. This lack of specific policies reflects neglect and lost opportunities. Development agencies could assist governments in developing diaspora-friendly policies, from small-scale measures such as allowing diaspora members to enter their countries without paying a tourist tax, to import tax-free goods and the like.
- Governments, development agencies, and the private sector, e.g. artisan businesses, but also larger companies such as beverage producers and the music industry, find a natural opportunity to enhance their productive marketing skills by locating their products with smaller ethnic entrepreneurs in the diaspora, where there is a demand. Such demand may eventually spread beyond the migrant community to the wider host society.

8.4 Diasporas as agents of development

Reaching out to the diaspora is key to any migrant-sending country or development agency's strategy to mobilize remittances for development. Such outreach policies could involve:

- increasing interactions and interests at the political level;,
- the granting of dual citizenship rights;
- the setting up of agencies to advise prospective migrants (in the case of El Salvador also refugees) about their rights and obligations;
- expanding such agencies' activities to countries with larger diaspora concentrations, e.g. by creating special offices in the consulates;
- building or enhancing already existing networks for investment, international trade, and tourism;

- inviting diaspora groups and HTAs to participate in forums for dialogue on development;
- facilitating the cooperation by source country governments with international organizations and HTAs to jointly direct income-generating schemes to their local communities.

8.5 Linking development and migration policies

Given the increasing significance of global migration it is notable that international cooperation on securing migrants' rights and interests is actually weak.

- As noted by Bhagwati, we do not have a treaty-based 'World Migration Organization' (WMO) to oversee the phenomenon of global migration according to internationally agreed objectives and procedures. This reveals that international migration continues to be viewed as a subject falling within the purview of sovereign states. Considering the growing understanding of migration as an important factor for development and the considerable role migrants already play, it is time to increase the protection of migrants' rights by forming a global migration policy framework.
- The costs and risks related to migration are often high. Reducing costs and risks could create a great potential for increasing many positive welfare effects of migration. Today, migration is often arranged through middlemen. The fees charged by agents are extremely high and much higher than the real costs involved in international migration. Managing labour migration and refugee flows in a more transparent manner would be of great significance for the millions of migrants and their families worldwide.
- Facilitating international migration could generate substantial remittance flows to developing countries. One positive though somewhat limited step in the direction of greater international labour mobility is the 'Mode-4' proposal for supplying services in the current round of the General Agreement on Trade in Services, or GATS. International development agencies should pressure for enhanced mobility.

An ironic feature in the debate concerns the fact that even though development agencies have taken an interest in the field of migration and remittances, official development assistance continues to ignore the movement of people. As noted by de Haan (2000), development policies tend to emphasize countries as the field of operation, though many vulnerable groups are spread out across borders. Integrated rural development and other sector programmes ignore the fact that a considerable number of members of local households may live abroad for shorter or longer periods. However, while it 'remains the central responsibility of developing

country governments to provide social services for poor people' and it 'remains the responsibility for donor governments to provide adequate assistance' (Ramphele, Op.cit.:43), both local and donor governments could benefit from viewing migrants as a development resource and taking account of the development impact of population mobility in concrete policies and schemes.

A note of caution

While beneficial to the families and societies back home, Susan Martin (2001) asks if the remittances come at a cost to those settling abroad. What trade-offs are there for migrants to save and put aside sufficient resources to remit? Are they forgoing the opportunity to invest in education and skills to send all this money home? Are remittance expectations another form of 'debt-bondage' that takes over as soon as other migration costs are paid off? International development agencies should make sure that their renewed focus on remittances as a development tool does not place additional stress on already vulnerable groups.

In order to harness the untapped power of global diasporas in shaping development in the home communities/countries, migrant and refugees need a stronger voice. Development agencies must recognize that remittances constitute crucial resources for development, but also that remittance flows are different from other financial flows in that they build on social ties and networks of obligation and affection. The present instrumentalism in policy recommendations regarding remittances may benefit from a conceptual as well as practical change. Any aim to make remittances work 'better' for development may not be about 'redirecting' or 'channelling' financial transfers from migrants for development, but rather about 'fostering' and 'enabling' an environment in which both financial and social remittances are made attractive and facilitated by donors. Only then will migrants and refugees be real partners in national and global development projects.

Annexes

Figure 1: Where the money comes from

Billions of dollars

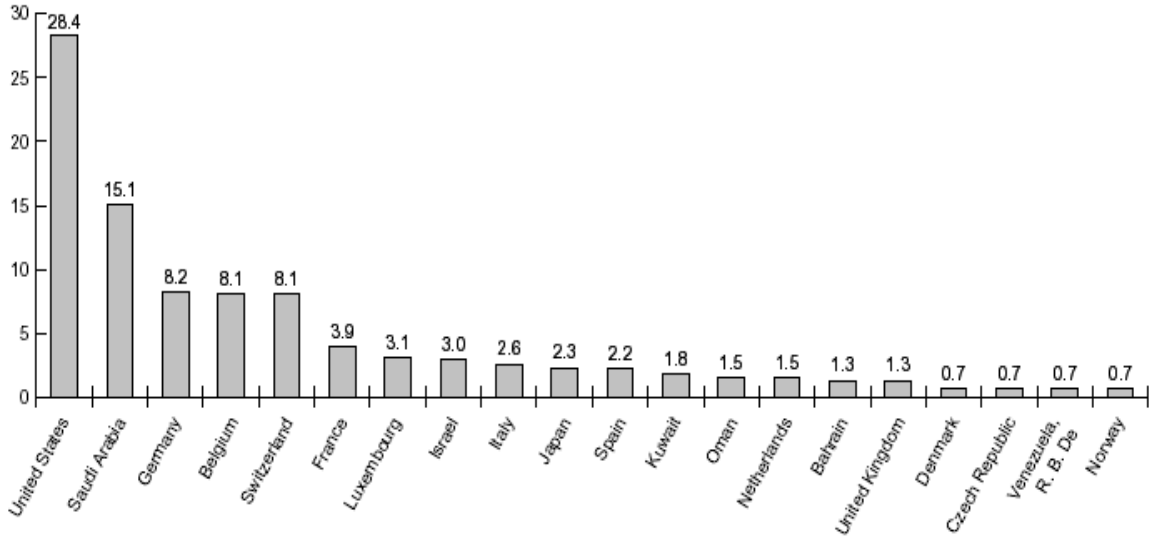
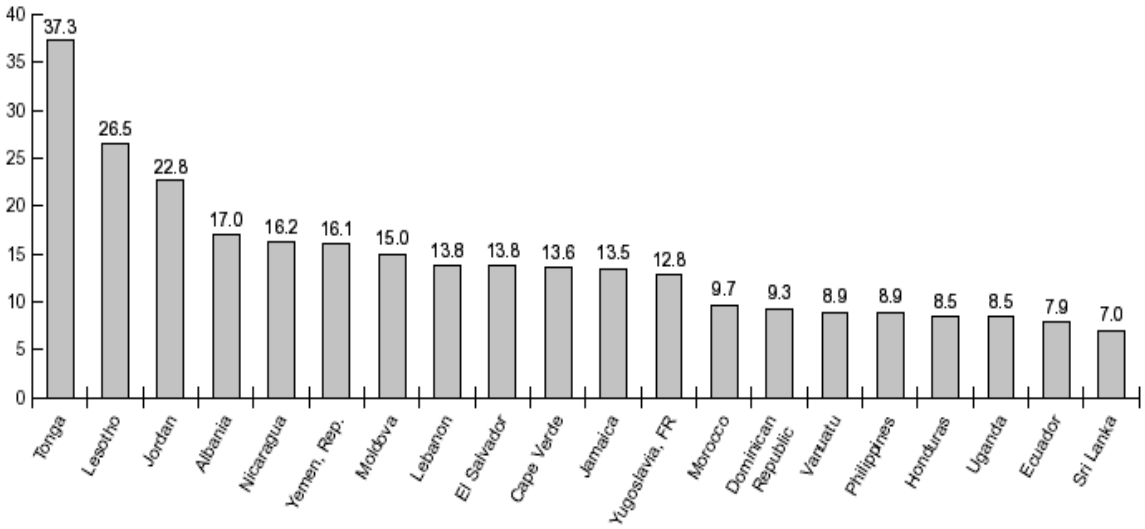


Figure 2: Where the money goes to

Percentage of GDP



Appendix Figure 3. A heuristic typology of transnational economic activities

Directon of exchange	Rationale	Type of exchange	Agent	Beneficiary	Benefits	Indicators	
						Micro	Macro
North-South	Kin solidarity Reciprocal obligations Yearning for social recognition	Family remittances	Individual migrant	Relatives, friends	Family subsistence	Remittances as % of household income	Remittances as % of exports and FDI
		Family investments	Individual migrant, family	Relatives	Family human capital* Family social capital** Family well-being***	Remittance as % of family investment in housing and durable goods, education	Migrants' participation in the housing market, and their families' human capital
		Community aid	Migrant associations	Community org. local NGOs	Development projects, philanthropic activities	Contributions to local projects	Aggregate contributions to regional economies
	Profit seeking Yearning for social recognition	Business investments	Individual migrant, family	Relatives, friends, bus. partners	Small, mid-scale businesses	Average business investment; employment generated	Aggregate contributions to regional economies
South-North	Reproduction of national/regional cultural practices, identities	Consumption of things national	Individual migrant	Business concerns in country of origin Ethnic economy abroad	Export of consumer goods, cultural goods and services, i.e.,news, music, art	Average per capita/ household consumption of national goods and services abroad	% of exports to conational consumers abroad (i.e., migrants)
North-North	Maintenance of transnational social, cultural, economic, political relations	Monetary and non-monetary transfers Telecommunications Air travel Media	Individual migrant, family	Large financial, communication, air transport corporations Ethnic economy	Corporate control of and profit from family remittance transmission, expansion of corporate market control	Ethnic market dynamics and business share	Commissions for family remittance transferred, international loans securitized, number of *ethnic* tourists, minutes of international phone calls

Source: Guarnizo 2003

* Includes sponsoring of relatives' formal education and training.

** Includes sponsoring relatives' migration expenses.

***Includes housing upgrading, purchasing, acquisition of domestic consumer and durable goods (appliances, vehicles), health care

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