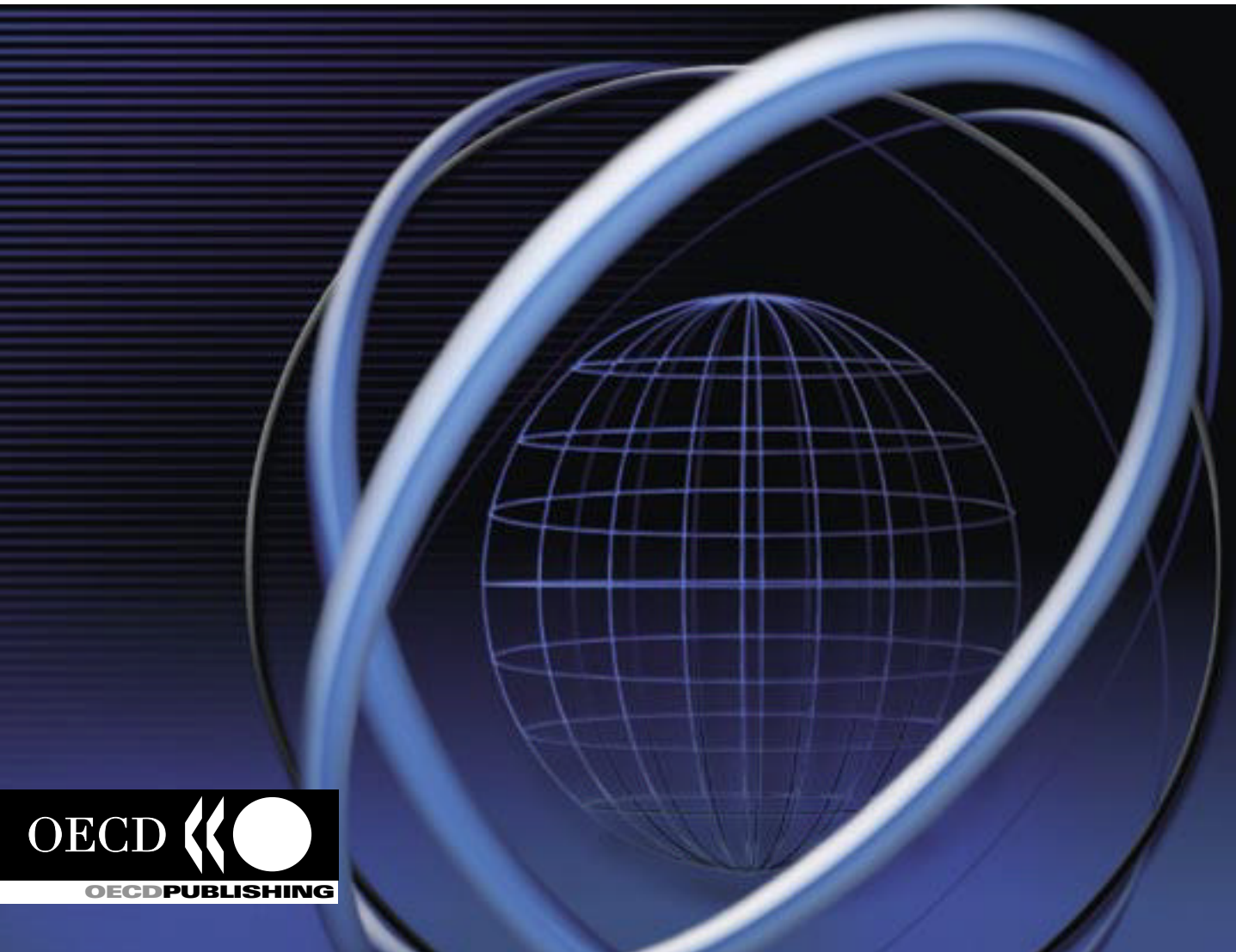
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FOREWORD

by

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The international conference jointly organised by the OECD and the Central Popular Bank of Morocco, with the support of the *Agence Française de Développement*, on Migration, Remittances and the Economic Development of Sending Countries, held in February 2005 in Marrakech, city full of history and host to many important international meetings, was a happy and interesting event for several reasons. First, for the varied and complex dimensions of international migrations, then for their financial impact and finally, for their consequences on co-development and outreach which emerged from the experiences of three continents: Africa, Asia and Latin America.

The issue of migration and development is not a new one, but it has not yet found its worthy place within international considerations. However, the international community seems to be paying more and more attention to it, and we note the emergence of areas of consensus in understanding the phenomenon through the multiple analyses which are dedicated to it. This reflects the importance which is being given to remittances in international relations with developing countries.

Remittances play a considerable role in the local and regional development of sending countries, to the point that their volume surpasses the official development aid from the OECD countries to non-member countries. Given the magnitude of remittances transferred through official channels, the analyses presented at this conference have attempted to examine all the facets of this issue. This has permitted us to increase our knowledge of the nature and determinants of remittances, as well as of the new forms of co-operation that have to be established between the sending and receiving countries.

While underlining the fact that migrants' remittances cannot substitute for sound macroeconomic policies, the discussions on international experiences led to a consensus on the role of emigrants as actors in development and partnership, at the economic level by the magnitude of the financial flows; at the social level by their implication in the diasporas and social networks as well as the ties migrants maintain with their countries of origin; and at the cultural level, by the role they play in the melting-pot of cultures and human values.

Remittances are the private savings of emigrants and their families. The mobilisation of these financial flows incites policy makers (while respecting the rights of migrants to allocate these funds as they wish) to design relevant policies which will improve

transmission channels, reduce the costs of transactions, offer innovative financial products and orient these funds towards projects and activities combining profit with security.

The recommendations which emerged from the three days of debate will no doubt contribute to improving the role of remittances as vehicles of development for countries of origin, where emigrant communities will be called upon to play a more pronounced role in optimising and combining their essential assets, *i.e* their human, financial and social capital.

A development policy linked to migration flows only makes sense if it is based on equality and respect of individual and collective rights, to serve common interests. It will be all the more fruitful if there is the political will on the part of the sending and receiving countries to strongly support strategies of trade liberalisation, incentives for private investment in the countries of origin, and aid and co-operation.

Developed countries are encouraged, through their political institutions and civil societies, to develop new forms of co-operation which promote peace, equality and tolerance. They are also urged to become more involved in understanding the cultures of the countries of origin, and in supporting development based on international solidarity, by giving priority to human rights over law-and-order security and repression.

Developing countries should, for their part, implement policies of good governance, of economic liberalisation and of tolerance, which strengthen migrants' ties with their origins and so enable them to become better integrated into a modern and universal world. We already harnessed ourselves to this ideal in Morocco and will continue to do so after the conference in Marrakech, city of tolerance, openness and cultural specificity in permanent contact with the universal. Through the conviviality of the work that has been dedicated to international migration issues here, this city should mark the continuity of reflection, continually renewed, to better service co-development and an *entente cordiale* among nations.

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EXECUTIVE SUMMARY

Developing countries, and in particular those which have provided the largest migration flows towards the OECD member countries since the middle of the 20th century, wish to be better integrated into the world economy. The renewed interest in migration for employment, the international mobility of skilled workers and the highly qualified, the increase in the number of foreign students, are elements in the globalisation of migration. It is in this context that the links between migration and development can be focused around three main topics: immigrants' remittances, return migration and a better use of human capital, in order to promote the economic development of sending countries. The international conference in Marrakech placed particular emphasis on the first of these topics: remittances and the economic development of sending countries.

In several emigration countries, remittances in 2004, estimated by the IMF at USD 126 billion, largely exceeded the volume of official development aid (ODA), and in certain cases even of foreign direct investments (FDI) or income from the export of goods and services. Remittances constitute a considerable source of hard currency for countries of emigration, sometimes covering several months of imports. The issue of remittances and the strong growth registered during the last decade have attracted increasing interest in several international organisations (IMF, World Bank, OECD), at a time when the volume of official development aid is tending to diminish slightly. According to certain analysts, remittances, which can be considered as structured financial flows, could contribute to a reduction in poverty, constitute an important supply of foreign hard currency for economic development, or accompany the growing flows of foreign direct investment, which are sources of development and employment creation.

The Marrakech Conference allowed, in the first instance, to underline the fact that relative to macroeconomic indicators, remittances are significantly higher in low and lower middle-income countries than in the other developing countries. Remittances are also unequally distributed across regions, with Asia receiving the lion's share, followed by the American continent and, far behind, Africa. A review of recent studies on remittances and development has shown that they have indisputably contributed to improving the living conditions of migrants and their families, although it seems less evident that these transfers have had a positive impact on the economic development of the countries of origin. In fact, the diversity in the personal characteristics and economic situations of immigrants, and the ways in which they make use of their savings, makes it very difficult to attract and massively orient these funds towards the economic development of their home countries.

The reduction in the costs of transfers of funds was analysed in depth, based on experiences from OECD member countries (Greece, Italy, Mexico, Portugal and Turkey, but also in the Philippines and Morocco). The crucial role of the banking system was emphasised, as were best practices to reduce the costs of the transfer of remittances. In the case of Portugal, private banks have attracted the greatest part of remittances and they are transferred at relatively low costs. In Turkey, the system is more complex. It is first

based on the networks of Turkish banks abroad, and the savings banks in receiving countries, mainly in Germany. The Turkish Central Bank pays a large proportion of the transfer costs of remittances to Turkey. During the conference, examples from Portugal (Caixa Geral de Depositos) and from Morocco (Banque centrale populaire du Maroc), demonstrated also that the migrant is not only considered by these banks as a foreign hard currency provider, but is a client who can benefit from all the bank's services. Consequently, not only is the transfer cost reduced, but it is also easier to channel part of the remittances to productive investment. On the contrary, in the case of a failure in the banking system or a lack of confidence in banks, intermediaries, such as Western Union, occupy a predominant position, even if the costs of transfers are very high. In fact, migrants prefer to resort to reliable services which permit the quick delivery of the funds to the recipients.

Taking advantage of new technologies could also help reduce the cost and reinforce the security of transfers. The development of new technologies is increasing the competition among suppliers of banking and financial services in both receiving and sending countries. The rich and varied experiences of the Equitable PC Bank in the Philippines allow valuable lessons to be drawn in this respect. This bank provides a wide range of services related to remittances, life and health insurance, and education of children, to future immigrants who present themselves to the administration charged with sending Filipinos abroad. The growing interest in migrant remittances and in the use of new technologies was also illustrated by the presentations of the MasterCard Group and the Inter-American Bank for Development. The latter institution is interested in migrants' banking, especially those originating from Latin America and Mexico.

The Marrakech Conference revealed that the diversity in the personal characteristics and the economic situation of immigrants, and the ways in which they make use of their savings, makes it very difficult to attract and orient these funds towards the economic development of their home countries. Remittances are private transfers and the savings involved belong to the migrants and their families, who decide on their allocation. Many attempts to channel these funds towards development have been unsuccessful, because they have failed to recognise the primacy of individual choice. However, good practices do exist, the objective of which is to help migrants to make better choices, to gain their confidence, and to rely on the networks built up both abroad and in the home countries, to put remittances to good use for individuals, their families, and social and economic development as a whole.

In fact, the best way to maximise the impact of remittances on economic growth in developing countries is to implement sound macroeconomic policies and policies of good governance, as well as development strategies involving all actors in the economy. Good governance, a sound banking system, respect for property rights, and an outward-oriented trade and FDI strategy, are prerequisites for enhancing the efficiency of remittances in an economic development perspective. The state has a primordial role to play in establishing these key building blocks for economic development, supported by the international community. Remittances are neither a substitute for ODA nor for FDI flows.

The Conference demonstrated that the artificial distinction between "productive and non-productive" uses of remittances must be reconsidered. Remittances are used to reduce household poverty and satisfy basic needs, but also to increase investment in health and education, *i.e.* to improve investment in human capital in the countries of origin. There is an important gender dimension to such human capital investments.

Finally, in order that remittances may play a greater role in the economic development of countries of origin, it was highly recommended that information be widely distributed on remittance channels and opportunities for investment, and that one-stop shops be created, in order to provide information at all stages of the migration process. Policies should support and accompany migrants who wish to engage in entrepreneurial activities. If special incentive schemes are put in place, they should be designed for everybody, and be open to migrants and non-migrants alike.

Over and above remittances, migrants make other, invisible, transfers to their countries of origin: economic behaviour, knowledge and know-how, and social and cultural exchanges. Numerous examples, notably from Mexico and Morocco, show that migrants not only contribute to the financing of the infrastructure at local level (electrification, water provision and irrigation, road building, medical centres and schools), but that this is accompanied by profound transformations in the way of life and of traditional local management. A participative process, involving all the actors (migrants, villages, local authorities), constitutes the best guarantee of sustainability of the infrastructures and ongoing productive projects. More attention should be paid to civil society and private initiatives in both the receiving countries and sending countries, as well as to the decentralised co-operation processes, and to the role of local authorities, the scientific diaspora and the second generation.

INTRODUCTION

INTERNATIONAL MIGRANT REMITTANCES AND THEIR ROLE IN DEVELOPMENT[1]

by

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Hamburg Institute of International Economics (HWWA)

Introduction

Migrant remittances are a steadily growing external source of capital for developing countries. While foreign direct investments and capital market flows fell sharply in the last years due to the recession in the high income countries, migrant remittances continued to grow, reaching USD 149.4 billion in 2002. The importance of remittances in compensating the human capital loss of developing countries through migration and their potential in boosting economic growth was already recognised in the beginning of the 1980s. A wide range of issues related to remittances became the subject of political debate, as well as of more in-depth research. These topics include the determinants of remittances, the transfer channels used and their economic impact on the remittance receiving countries. Over the past years, partly because of the sharp increase in remittance flows, the research on these issues gained momentum, resulting in a mushrooming of scientific literature.

This introduction presents a critical overview of the state-of-art literature on remittances and is organised as follows: in the following section, the data on migrant remittances, methods of estimating the amounts of remittance flows, global and regional trends in remittance flows, and their importance as a source of capital for developing countries, are discussed. The third section gives an overview of the theoretical and empirical research on the determinants of remittances and the following section outlines the transfer channels, the cost involved with international money transfers and the evolutions of money transfer markets. The last two sections examine the literature on the effects of remittances on inequality, growth and the balance of payments, and present the conclusions.

1. The paper is a result of the Hamburg Institute of International Economics (HWWA) Migration Research Group. Valuable comments from Christina Boswell, Michael Bräuniger, Jean-Pierre Garson, Drago Radu, and Nadia Vădean are gratefully acknowledged. Financial support from the Friedrich Naumann Foundation and the Organisation for Economic Co-operation and Development (OECD) are noted with appreciation.

Migrant remittances: data and trends

Data sources and evaluation of remittance flows

According to the International Monetary Fund (IMF) interpretation, remittances are recorded in three different sections of the balance of payments:

- Compensations of employees are the gross earnings of workers residing abroad for less than 12 months, including the value of in-kind benefits (in the current account, subcategory "income", item code 2310).
- Workers' remittances are the value of monetary transfers sent home from workers residing abroad for more than one year (in the current account, subcategory "current transfers", item code 2391).
- Migrants' transfers represent the net wealth of migrants who move from one country of employment to another (in the capital account, subcategory "capital transfers", item code 2431).

While the IMF categories are well defined, there are several problems associated with their implementation worldwide that can affect their comparability. Some central banks (*e.g.* Bangko Sentral ng Pilipinas) book almost all migrants' remittances under "compensation of employees", even for migrants who are abroad for more than 12 months. Other central banks *(e.g.* the Czech National Bank and the Bulgarian National Bank) do not record workers' remittances separately, but pull them together with other private transfers under "other current transfers other sectors" (item code 2392).[2] However, for the Czech National Bank, under "other current transfers other sectors" mainly household transfers are recorded (Czech National Bank, 2002). In addition, many central banks do not separately record "migrants' transfers" in the capital account.

In order to capture the extent of migrant remittances in a better way than the data reported under the heading of "workers' remittances" alone, scholars use different calculation methods. Some calculate them as the sum of three components: 1) compensation of employees, 2) workers' remittances, and 3) migrants' transfers (Ratha, 2003). Others sum up just compensation of employees and workers' remittances (Taylor, 1999). And finally, Daianu (2001) proposes for the computation of remittance credits the sum of "compensation of employees", "workers' remittances", and "other current transfers of other sectors". Daianu's method of estimating international migrants' remittances flows is considered to be the most appropriate to overcome the discrepancies referred to above. All data presented in this section are calculated using this method. However, the data have serious limitations and the estimates should be interpreted with caution. In some ways, the remittance flows calculated this way overestimate the real flows. First, "compensation of employees" represents gross earnings of migrant workers that are partly spent in the host country and never remitted. Second, "compensation of employees" includes income of non-migrants, *e.g.* local (home country) staff of foreign embassies and consulates, and international organisations, which are treated as extraterritorial entities. Third, "other current transfers of other sectors" include transfers that are difficult to distinguish from workers' remittances, *e.g.* aid, gifts, payments from

2. "Other current transfers of other sectors" (item code 2392) together with "workers' remittances" (item code 2391) are the two subcomponents of "current transfers, other sectors" (item code 2390). "Other sectors" refer to other non-government sectors.

unfounded pension plans from non-governmental organisations (NGO), and even transfers from illicit activities. On the other hand, the same remittance flows can be seen as underestimated because they do not include transfers through informal channels, such as hand-carries by friends or family members, or in-kind remittances of jewellery, clothes and other consumer goods, or through hawala.[3] These are believed to be significant in many countries, ranging from 10 to 50% of total remittances, but often are not recorded in the official statistics (Puri and Ritzema, 1999; El-Qorchi, Maimbo and Wilson, 2002). If and when they are recorded, it is not clear to what extent they reflect actual transfers rather than imports. For example, in recent years, India has started recording as imports the gold brought by incoming international passengers, although previously this was classified as remittances (Ratha, 2003).

Trends in migrant remittances to developing countries

Remittances to developing countries from international migrants rose in 2002 by 17.3%, reaching USD 149.4 billion. Compared to other capital flows, migrants' remittances were smaller than foreign direct investment (FDI) (83.7%), but significantly larger than portfolio investment flows, by more then eight times, and three times larger than official development assistance (ODA) (Figure 1).

Remittances are a very important capital source for developing countries. In 2002, they were equivalent to 2.4% of the cumulated GDP of developing countries, 8.2% of the cumulated exports and 10.4% of the cumulated investments. Relative to macroeconomic indicators, remittances are significantly higher in low-income and lower-middle income countries than in the other developing countries. For example, remittances were equivalent to 216% of exports from the West Bank and Gaza, 90% of exports from Cap Verde, over 75% of exports from Albania and Uganda, and over 50% of exports from Bosnia and Herzegovina, Sudan and Jordan. Remittances were also equivalent to more then 40% of the GDP in Tonga, more then 35% of the GDP in the West Bank and Gaza, more then 25% of the GDP in Lesotho, and more then 20% of the GDP in Cap Verde, Jordan and Moldova (Table 1).

Migrant remittance flows are unequally distributed in the world, with Asia receiving the lion's share. Since 1996, 40 to 46% of the annual remittance flows were received by Asia, followed by Latin America and the Caribbean with 17 to 22%, and central and eastern Europe with 15 to 18% (Figure 2). This is not surprising, since Asia is the most populous region of the world and also has the most numerous diaspora.

It is also not surprising that the top remittance receiving countries are also the most populous, with India and China receiving over USD 14 billion, Mexico over USD 11 billion, the Philippines and Korea over USD 7.5 billion, and Pakistan over USD 5 billion (Table 2). Another way of comparing capital flows internationally is by looking at the amounts received per capita: the regions that received above-average levels of remittances in 2002 were the Middle East with 305%, Latin America and the Caribbean, 210%, and eastern Europe 165%. Asia and Africa received remittances below the 2002 average of USD 28.53, at proportions of respectively, 72% and 61% (Figure 3).

Regarding the per capita remittances received by different developing countries, the distribution is even more unequal: Israel, Tonga, Barbados, Jamaica and Jordan received

3. For more about *hawala* (meaning transfer), see below under "The transfer channels".

in 2002 the highest amounts of remittances per capita (Table 3), each exceeding by 1 500% the average per capita remittances received by developing countries.

The International Monetary Fund (IMF) does not disaggregate remittance flow data by source countries or by destination countries, so it is not possible to distinguish the exact amounts of remittance outflows from remittance source countries that go to developing countries. Nonetheless, some scholars estimated that in 2001, developing countries received USD 18 billion in remittances from the United States alone. Another important source of remittances for developing countries is Saudi Arabia, which is considered to be the largest source on a per capita basis (Ratha, 2003).

Determinants of money remittances

The level of migrants' remittance flows depends on both the migrants' ability, *i.e.* their income and the savings from income, and their motivation to remit savings back to the home country. Of course, the willingness to remit is also determined by the duration of migration (how long do migrants intend to stay abroad, temporarily or permanently?), the family situation of migrants (single, married, with or without children?), and network effects (do migrants move alone, with family members, and do they keep attachments to those left behind?) (for the growing importance of network effects see Munshi, 2003). One way of looking at the determinants of remittance flows is by analysing the motives that migrants have to remit money. The literature distinguishes between pure altruism, pure self-interest, informal agreements with family members left in the home country and portfolio management decisions. As Stark (1991) points out, no general theory of remittances exists. The studies that analyse this phenomenon provide useful descriptive evidence and results from empirical research, but they only explain it partly, and are characterised by certain geographical, socio-cultural and temporal limitations.

Pure altruism

One of the most intuitive motivations for remitting money back home is what has been characterised in the literature as "altruism": the migrants' concern about relatives left in the home country. Under an altruistic model, the migrant derives satisfaction from the welfare of his/her relatives. The altruistic model advances a number of hypotheses. First, the amount of remittances should increase with the migrant's income. Second, the amount of remittances should decrease with the domestic income of the family. And third, remittances should decrease over time as the attachment to the family gradually weakens. The same should happen when the migrant settles permanently in the host country and family members follow. Empirical evidence from Botswana gave support to the first prediction. A 1% increase in the migrant's wage, *ceteris paribus*, induced increases in remittances ranging from 0.25%, at low wage levels, to 0.73%, at high wage levels. However the correlation between remittance levels and home incomes was found to be insignificant. Thus, altruism was found to be insufficient for explaining the motivations to remit, at least for Botswana (Lucas and Stark, 1985). Altruistic motives to remit were found also in recent studies on United States immigrants. Households with children at home are approximately 25% less likely to remit than households without children present. In addition, immigrants with minors left in the country of origin are more than 50% as likely to remit money home (Lowell and de la Garza, 2000).

Pure self-interest

Another motive for remitting money to family members in the home country may be pure self-interest. First, a migrant may remit money to his/her parents driven by the aspiration to inherit, if it is assumed that bequests are conditioned by behaviour. Second, the ownership of assets in the home area may motivate the migrant to remit money to those left behind, in order to make sure that they are taking care of those assets. Empirical evidence from Kenya and Botswana shows that wealthier parents received a larger share of migrant earnings through remittances (Hoddinott, 1994; Lucas and Stark, 1985). However it cannot be clearly discerned whether the motive was to inherit or to ensure the household took care of the migrant's assets. Survey data on Tongan and Western Samoan migrants in Sydney attest that migrants are motivated to remit for reasons of self-interest, and in particular for asset accumulation and investment in the home areas (Brown, 1997). Third, the intention to return home may also promote remittances for investment in real estate, in financial assets, in public assets to enhance prestige and political influence in the local community, and/or in social capital (*e.g.* relationship with family and friends). Empirical evidence from the Greek migration experience shows that per migrant, remittance flows from Greek migrants in Germany were much higher (experiencing a "return illusion") than from Australia and the United States (experiencing a "permanent settlement syndrome") (Glytsos, 1988 and 1997). United States immigrants exhibit the same remittance behaviour: each 1% increase in the time spent in the United States decreases the likelihood of remitting by 2% and immigrants's political lobbies in the United States are half as likely to remit as the rest (Lowell and de la Garza, 2000). Canada, a country that receives mainly permanent immigrants, registered a similar experience, with immigrant households spending just a modest portion of their budgets on remittances. On average, 2 to 6 % of their total household expenditures were devoted to this category (DeVoretz, 2004).

Implicit family agreement: co-insurance and loan

Household arrangements, particularly within an extended family, may be considered more complex in the real world, and certainly more balanced as under the two extremes: pure altruism and pure self-interest. Thus Lucas and Stark (1985) explained the motivations to remit by a more eclectic model labelled "tempered altruism" and "enlightened self-interest". In this model, remittance determination is placed in a family framework of decision-making, with remittances being endogenous to the migration process. For the household as a whole, there may be a Pareto-superior strategy to allocate certain members as migrants, and remittances should be the mechanism for redistributing the gains. Two major sources for potential gain are taken into account: risk-spreading and investment in the education of young family members. In this context, the intra-family understanding is seen as an "implicit co-insurance agreement", respectively as an "implicit family loan agreement" (see Agarwal and Horowitz, 2002 for an empirical case study). The implicit contract between migrant and family is safeguarded against being breached by the family specific assets, *i.e.* credit and loyalty, but also by self-seeking motives of the migrant, *i.e.* aspiration to inherit, investment in assets in the home area and maintenance by family, and the intention to return home with dignity.

In the implicit co-insurance model, it is assumed that in a first phase, the migrant plays the role of an insuree and the family left at home the role of the insurer. The family finances the initial costs of the migration project, which in most cases are substantial. It is expected that the potential migrant is unable to cover all the expenses alone. The high

extent of uncertainty related with the implementation of a migration intention may be minimised by the financial support from home. In turn, the migrant can act also as an insurer for the family members back home in a second phase of the migration process. This is expected to be possible when the migrant has already a secure employment, high enough earnings and has positive expectations about further income. By receiving remittances, the family will then have the opportunity to improve its consumption, to undertake investment projects including much more risk and thus reach a higher level of utility. Evidence from Botswana shows that families with more cattle receive significantly more remittances in periods of drought (Lucas and Stark, 1985).

The loan agreement model was theorised as displaying a "three waves" shape. In a first stage, remittances are assumed to be the repayment of an informal and implicit loan contracted by the migrant for investment in education and migration costs. In a second stage, they are loans made by migrants to young relatives to finance their education, until they are themselves ready to migrate. In this phase, the amounts remitted are expected to diminish in aggregated numbers because not all migrants are expected to give a loan to family members. Then, in the third stage, before returning to their original country, migrants invest accumulated capital at home, therefore the amount of remittances increases. Later, the next generation of emigrants repay the loan to the former emigrant-lenders, who may have retired in the home country. Given the nature of the loan, remittances cannot consequently be reduced over time - as the co-insurance or altruistic theory predicts - and are mainly used for consumption purposes. Empirical estimations for Botswana's rural to urban migration showed that migrants' years of schooling, and the years of schooling of their own children, are positively and significantly correlated to remittances, giving support to the loan agreement hypothesis. Empirical support was found as well from Tonga and Western Samoa, due to the regularity of remittance flows (Poirine, 1997). However, survey data on migrants from the these countries in Sydney provide no evidence that in situations where parents have invested more in a migrant's education, they will remit more than otherwise (Brown, 1997). Recent empirical studies also reject the loan agreement hypothesis. A 1998 marketing study of Latino households in the United States showed that migrants' education has a strong impact on remittances, with each additional year of education reducing the likelihood of remitting by 7% (Lowell and de la Garza, 2000). The results of another study with macroeconomic data from over 30 developing countries are suggesting the same behaviour of migrant workers. These results are striking, suggesting that brain drain flows are not compensated by remittances (Faini, 2002).

The migrant's saving target

Another way to model remittance determination is to assume that the migrants' goal is to return home with a certain amount of savings - the saving target.[4] Thus, remittance flows during the migrants' stay abroad result from a bargaining process between the migrant and his/her family. The claim of the family left at home on the migrant's income is considered as the demand side and the ability of the migrant to remit, *i.e.* income and the savings from income, as the supply side for remittances. The migrant has an interest in reaching the saving target and to minimise the drains from the income *(i.e.* consumption expenses in the host country and the money remitted to the family). Therefore the expectations of future income are continuously being revised and a nexus

4. In the model, the savings target is excluded from the remittance flows.

of inter-related factors are adjusted, including the length of stay, the intensity of work, and the flow of remittances for the family's consumption. On the other hand, the family is regarded as having as its goal an income (including remittances) larger then that of the neighbours, in order to justify the decision to send some family members abroad. Thus, the amount of remittances depends on the migrant's income, the per capita income in the home country and the bargaining power of the two parties. Empirical evidence for the support of the saving target hypothesis was found for Greek-German migration in the period 1960-1982, and for migration from seven Mediterranean countries (Algeria, Egypt, Jordan, Morocco, Syria, Tunisia and Turkey), the remittances being positively correlated to the per capita income in the host as well as in the home country (Glytsos, 1988, 2002).

In a recent paper, Lucas (2004) summarises the answers to the question whether migration for permanent settlement results in lower remittances than temporary migration. Temporary migrants might have higher incentives to remit to those left behind than permanent migrants (Galor and Stark, 1990). Moreover, the longer migrants stay abroad, the lessser are the bonds to the sending economy and the lower are the remittances (Merkle and Zimmermann, 1992). On the other hand, migrants are better paid the longer they live in the destination country. Thus they could (if they wish) remit more. Lucas (2004, p. 13) concludes that remittances may initially rise, then decline with duration of stay, which "would suggest an optimal length of stay to maximise remittance flows, balancing greater earning power against diminishing attachment".

Portfolio management decisions

Most of the current literature on the determinants of remittances is concentrated on the individual motives to remit, rather than on macroeconomic variables. To be sure, aggregate remittance flows will reflect the underlying microeconomic considerations described above, which determine individual decisions about remittances. Nevertheless, it is reasonable to expect that there are some macroeconomic factors, both in the host and home country, which may significantly affect the flow of remittances. Migrants' savings that are not needed for personal or family consumption may be remitted for reasons of relative profitability of savings in the home and host country, and can be explained in the framework of a portfolio management choice. In contrast to remittances for consumption proposes, the remittance of these kinds of savings have an exogenous character related to the system of migration, and are expected to depend on relative macroeconomic factors in the host and home country, *i.e.* interest rates, exchange rates, inflation, and relative rates of return on different financial and real assets.

Relying on such assumptions, governments of migrant sending countries used to implement incentives schemes, *i.e.* premium exchange rates, foreign exchange deposits with higher returns, etc. in order to attract remittances from their diasporas. However, contrary to the conventional belief, empirical analysis reveals that the incentives to attract remittances have been not very successful. Empirical results for Turkey of the period 1963-1982 illustrate that neither variations in exchange rates (reflecting the governmental intention to attract remittances by premium exchange rates), nor changes in the real interest rates (reflecting the governmental intention to attract remittances by foreign exchange deposits with higher interest rates) turned out to affect the amounts of remittance flows. The flows of remittances towards Turkey depended more on political stability rather than economic returns. An environment of confidence in the safety and liquidity of savings was much more important than options of possible higher returns (Straubhaar, 1986).

According to some scholars, microeconomic factors are more significant in determining remittance flows in the long run, while portfolio considerations are presumed to have only a short-term effect, essentially by shifting remittances around the long-term trend. In addition, the macroeconomic environment – especially in the home country – may substantially influence the choice of the channel for transferring the money. Therefore, this issue can become crucial for the amount of officially recorded transfers. Inflation in the home country was found to have a negative impact on remittances, perhaps reflecting uncertainties from the perspective of the remitters (Glytsos, 2001). Similarly, remittances became volatile in the Philippines following the financial crisis at the end of the 1990s, and suffered a decline as the economy slipped into crisis in 1999 and 2000 (Ratha, 2003).

It should be pointed out that these numerous hypotheses trying to explain migration decision and remittances are not mutually exclusive. In fact, it may be the case that remittances are driven by all of these motives at the same time, each one explaining a part of the remittance amount or period of remitting practice. One of the elements can predominate over the others for a period or for a sample of migrant workers, and their roles can be later interchanged. This implies the complexity of the remittance phenomenon and its determinants, and explains the challenges of developing a universal theory (El-Sakka and McNabb, 1999).

The transfer channels

Since systematic research on the determinants of workers' remittances was undertaken in the 1980s, there was been a recognition that an important part of the money remitted back home by migrant workers flows through informal channels. An unstable macroeconomic environment in the home country was assumed to be a significant reason for choosing informal remittance mechanisms by the migrants. However, systematic research on transfer mechanisms has been carried out only in the last few years. Here the focus has been on: 1) the typology of the transfer mechanisms, 2) the comparative cost of transfers through different mechanisms, and 3) the choice of the transfer means and money transfer market evolutions.

The typology of transfer mechanisms

Migrants use a wide array of informal and formal mechanisms to remit money, ranging from hand deliveries by the migrants themselves or by a third party, and less regulated mechanism such as "hawala", or "hundi", to electronic transfers through postal services, banks, credit unions, and money transfer companies.

Hand-carries by the migrants themselves or by a courier represent a transfer mechanism supposed to persist only among the poorest in the developing world, such as in Africa (Orozco, 2002). But this is not the case. Recent data for Latin America show that almost 10% of all remittances to those countries are hand-carried (Suro *et al.,* 2002). For the Romanian diaspora, the International Organization for Migration (IOM) estimates that these informal mechanisms could account even for 50% of the remittance transfers (IOM, 2004).[5]

5. As far as is known, almost all East European bus transport companies that link the East European countries to the EU also offer courier services. Because of the low cost, mainly poor and unskilled workers use them both for travelling and sending remittances.

Another informal mechanism reported by Suro (2003) is sending money by ordinary mail. Even if this is a quite risky mechanism, it accounts for 7% of the remittances send by Latino migrants in the United States.

Asian migrants use an additional informal transfer mechanism by which money is not physically or electronically transferred. This system is known as "hawala" (meaning transfer) in Pakistan and Bangladesh, "hundi" (meaning collect) in India, "fei ch'ien"(meaning flying money) or "chits/chops" (meaning notes/seals) in China. As described by El-Qorchi (2002), transfers from country A to country B through this mechanism involve two intermediaries, called hawaladars. The hawaladar in country A receives funds in one currency from a person from country A to be transferred to another person in country B. The person in country A receives a code for authentication proposes. The hawaladar then instructs his/her correspondent in country B to pay an equivalent amount in local currency to the designated beneficiary, who needs to disclose the code to receive the funds. Although the remittance is immediately transferred, the liability the hawaladar in country A has to his counterpart in county B is set through various mechanisms of compensation occurs at different moments and often does not involve direct payment between the two hawaladars.

There are also formal immigrant-businesses involved in international money transfers. In the United States, these are known as "ethnic stores", and most of them operate transfers to Bangladesh, India, Pakistan and the Philippines. As Orozco (2002) reports, these enterprises need to contend with competition from the hawala system (which operates outside the US regulation system). They also face tough competition from wire transfer services, such as Western Union, which have more market power. According to recent estimates, this type of business is gradually losing global market share, from 50% in 1996 to 45% in 2001 (Orozco, 2002).

Postal offices also entered the international remittance market in the 1990s, by offering the possibility of transfers through international money orders. EuroGiro, a European company established in 1993, operates in direct co-operation with the Universal Postal Union (UPU) to promote new solutions for postal financial organisations worldwide. Currently, it operates international money transfers in more than 30 countries including the European Union (EU), Canada, United States, most central and eastern European countries, Brazil, China and Israel. The US Post Office has its own transfer system that allows transfers to most Latin American countries. Additionally, they introduced in 1998 Dinero Seguro@, a system that offers the possibility of transferring smaller amounts of money (up to USD 2 000) from postal offices in the United States to any of the 2 300 Bancomer branches in Mexico.

The most popular businesses for international money transfers are the money transfer companies, like Western Union and Money Gram. Money transfer companies are non-bank financial institutions which are authorised to engage in banking activities not involving the receipt of money on any current account subject to withdrawals by check (Lowell and de la Garza, 2000). The company with the largest global presence is Western Union. It has more than 170 000 agent locations worldwide and a global market share of about 26% (Orozco, 2002).

The transfer mechanisms developed by banks and credit unions have the particularity that at least the remittance sender must open a current account with a bank in the host country. Having a current account with a bank allows the remittance sender to electronically send money to a bank account of the receiver in the home country. Moreover modern banking technology permits payments in stores or cash withdrawals at

Automated Teller Machines (ATMs) with a debit or credit card at the receiving end. The amounts paid/withdrawn this way are then credited on the account of the remittance sender. According to the Pew Hispanic Center/Kaiser Family Foundation National Survey of Latinos, major barriers for Latino migrants in the United States wanting to use this mechanism are legal status (which impedes illegal migrants from opening current accounts), lack of information that such methods can be used to remit money internationally and poor banking infrastructure in the migrants' home countries (Suro *et al.,* 2003). A further barrier to these transfer mechanisms in the United States is that current account holders have to choose between the size of the minimum balance they maintain in the account and the fees they pay for running the current account (*i.e.* fees decrease as the minimum balance decreases). Maintaining a minimum balance of at least USD 1 000, that eliminates fees, is beyond the abilities of many Latino migrants "who earn low wages, live payday to payday, and dispatch most of their disposable income in remittances"(Suro *et al.,* 2003). For remittance transfers to Latin America, banks and credit unions have a market share of 13% (Suro, 2003).

The comparative cost of transfers through different mechanisms

The cost of transferring money varies greatly from country to country, and according to the method of transfer. But migrants are not interested only in transfer costs. They are also interested in the risk they carry. The cheapest transfer methods are self hand-carries and ordinary post, but they involve also the highest risk of being stolen.

The hawala system is *par excellence* a system of trust. It is very popular because it is relatively inexpensive (1.25 to 2% of the transferred value), senders do not have to provide identification, and it is well organised in the migrants' home countries.

More formal transfer mechanisms reduce significantly the transfer risks, but are also much more costly compared to informal ones. For example, the Inter American Development Bank estimated that the total cost of sending remittances to Latin America and the Caribbean reached USD 4 billion in 2002. That is about 12.5% of the total remittances. Because of the small amounts per transaction (about USD 200), the fees are very high. Orozco (2003) provided a good comparison of the cost involved in formal international money transfers for the sending of small amounts of money (USD 200). He compared the cost of remittance transfers from six sending countries (France, Germany, Saudi Arabia, South Africa, United Kingdom and United States) to 14 receiving countries in southern Europe, South Asia, Africa and Latin America. The study includes banks, national money transfer companies ("ethnic stores"), and international money transfer companies.

The mean value to send USD 200 was 6% through "ethnic stores", 7% through banks and 12% through money transfer companies like Thomas Cook or Western Union. Competition is very important for reducing remittance costs. But in many cases, it is inhibited because of the lack of banking services in the rural populations of sending countries, a lack of confidence in formal channels, impediments to banking because of legal status (*i.e.* illegal residence) and lack of information about modern banking methods for money remittances.

The choice of the transfer means and money transfer market evolution

In order to better understand how remitters choose the means to send money home, the Pew Hispanic Center and the Multilateral Investment Fund of the Inter-American Development Bank commissioned Bendixen and Associates, a public opinion research

company based in Miami that specialises in polling Latinos in the United States, to conduct an intensive study. Extensive interviews with 302 remittance senders were conducted, focused on their understanding of the costs involved and their willingness to use new methods, such as the electronic transfer products that US banks are now putting on the market. The results are presented in the report "Billions in Motion: Latino Immigrants, Remittances and Banking" of 22 November 2002.

The report shows that most remittance senders - according to Suro (2003), 70% of all remitters from the United States to Latin America - use international money transfer companies such as Western Union and MoneyGram, which are expensive relative to banks and credit unions.

The results of the study indicate that a large segment of the remitting population is willing, even eager, to explore new methods of sending money home. But a variety of legal and institutional factors impede their ability to do so. Many lack proper identity documents and fear that the failure to produce valid papers at a bank will jeopardise their possibility to stay in the country. They are receptive to innovations that help overcome legal impediments to banking, such as the identity cards issued by Mexican consulates in the United States known as the "matricula". Yet, despite all the recent developments that have helped formalise and ease remittance flows, for many Latinos it remains an expensive and confusing process, primarily because of minimum balance requirements and the fees charged. These factors all mean that remitters keep going back to the old methods, mainly international money transfer companies, even though they are concerned that they are paying excessive transaction fees and foreign exchange costs.

These findings suggest that a wholesale move by remitters to banking channels will only take place if banks can offer similar services to those provided by international money transfer companies, at significantly reduced costs. This will involve more than simply putting an effective product on the market and letting it go head-to-head with existing products. Banks will need to guarantee competitive pricing and quality of service at both ends of the remittance transaction. Given the intimate family connections between remittance senders and receivers, the convenience, reliability and safety of the services provided in Latin America will have to meet or exceed those currently available there.

If immigrants who regularly dispatch most of their disposable income in remittances could acquire the habit of accumulating money in a bank account, they would attain benefits that go beyond economising on the costs of remittance. The potential benefits include reduced banking costs, interest-paying savings accounts, the responsible use of credit, and ultimately financial practices that are rewarded by the tax system, such as home ownership and retirement savings accounts. In order to attract new customers, some US banks already offer financial literacy training and help Mexican immigrants to obtain "matriculas".

Moreover, as other authors argue, ensuring transparency in pricing and greater consumer awareness about the available options are also important for a fair competition and efficient market for remittance transfers. This is one of the reasons for the introduction by the United States of the Wire Transfer Fairness and Disclosure Act. According to this act, fees and exchange rates have to be posted in the offices of money transfer agencies and in their advertising, and remitters are to be provided with a receipt stating the exact amount of foreign currency to be received in the foreign country (Suro *et al.,* 2002).

The economic effects of money remittances

There is a bulk of economic literature on the impact of money remittances on the remittance receiving countries (a very recent study is Terry *et al.*, 2004). Most of the analysis has tended to focus on three main issues. The first part of the literature discusses the direct impact of remittances on income distribution, poverty alleviation and individual welfare. The second part concentrates on the subsequent effects of remittances on the economy as a whole, discussing the impact on employment, productivity and growth. And finally, the third part deals with the contribution of remittances to cover deficits in the trade balance and in the current account.

Remittances and income distribution

The research on the income distribution effects of remittances focuses on social justice and equality, and does not deal with implications for the home economy. In empirical evaluations, most of the studies on income distribution effects of remittances use the Gini index. The empirical evidence is mixed. Some scholars such as Ahlburg (1996), Taylor and Wyatt (1996) and Taylor (1999) found confirmation for the hypothesis that remittances had an equalising effect on income distribution in Tonga and Mexico. For Tongan households, for example, the Gini coefficient for total income declined from 0.37 to 0.34 with the receipt of remittances. By contrast, other studies show that remittances increase inequality as measured by the Gini coefficient. One of the main reasons for this is that richer families are more able to pay for the costs associated with international migration. Thus, evidence from Egypt shows that despite the poverty reduction (because a significant number of poor households do receive remittances), remittances induced income inequality to rise (Adams, 1991). In the Philippines, remittances contributed in the 1980s to a 7.5% rise in rural income inequality, in spite of a low share of remittances in the households' income (Rodriguez, 1998). Household survey data from Pakistan reveal that the wealthier income groups were those which benefited the most from migrants' remittances (Adams, 1998).

Stark, Taylor and Yitzhaki (1986, 1988) used a dynamic model to offer a broader view on the income distribution effect of remittances. Focusing on rural income distribution in two Mexican villages, they found that the income distribution effect of remittances depends decisively on the migration history, and on the degree to which migration opportunities are diffused across households. They suggested that the dynamics of migration and income distribution might be represented by an inverse U-shape relationship. At the early stages of migration history information about target destinations and employment possibilities in destination countries is still limited. At this stage, it is mainly wealthier households that send migrants abroad. Consequently, the wealthier families benefit first from migrant remittances, causing income inequality to rise. At later phases of migration history, as migration is widely spread over a greater range of income classes, poorer households benefit from migrant remittances as well and remittances have an equalising effect on income distribution.

But evidence derived from dynamic models is also divergent. Using a similar approach to that of Strak, Taylor and Yitzhaki, and inter-temporal data from the 1973, 1978 and 1983 Yugoslavian household surveys, Milanovic (1987) found no support for the U-shape relationship hypothesis. In contrast, his results showed that remittances lead to income divergence. Furthermore, the effects differ according to the periods and social categories considered.

There is no decisive conclusion as to whether migrant remittances induce income convergence or divergence at origin, for two main reasons. First, there is diversity in the environments studied in terms of initial inequality. And second, disparities in results may be caused by differences in the empirical methods applied: static *versus* dynamic, with or without endogenous migration costs, and with or without factoring in the effects of migration on domestic income sources (Docquier and Rapoport, 2003). This theoretical study suggests that the conflicting results of the empirical literature may be reconciled if local wage changes at origin are taken into account. They show that the inequality impact of remittances and local wage adjustment tend to reinforce one another in the case of high initial inequality, but may compensate one another in the low initial inequality case. This has important implications for empirical studies. For example, in the Mexican case, where inequality is high, the omission of wage adjustments may lead to an underestimation of the equalising effect of remittances. On the contrary, in the Yugoslavian case, where inequality is lower, taking this labour market effect into account could possibly reverse an inequality enhancing effect. However, this theoretical finding has to be considered with care, until confirmed by empirical work (Adams and Page, 2003).

Remittances and growth

There are some indisputable welfare effects of migrant remittances. First, remittances are an important source of income for many low and middle-income households in developing countries. Second, remittances provide the hard currency needed for importing scarce inputs that are not available domestically and also additional savings for economic development (Ratha, 2003; Taylor, 1999; Quibria, 1997). But the magnitude of the development impact of remittances on the receiving countries was assumed by many scholars to depend on how this money was spent. Thus, a significant proportion of the literature studies the use of remittances for consumption, housing, purchasing of land, financial saving and productive investment. There is no doubt that spending on entrepreneurial investment has a positive direct effect on employment and growth.[6] However, other scholars documented that even the disposition of remittances on consumption and real estate may produce various indirect growth effects on the economy. These include the release of other resources to investment and the generation of multiplier effects. Regarding the use of migrant remittances, a longstanding literature has suggested that remittances are more often spent on basic consumption needs, health care and real estate. But, whether from remittances or other sources, income is spent in a way which responds to the hierarchy of needs. Therefore it is reasonable to suppose that until the developing countries reach a certain level of welfare, households will continue to exhibit the same spending pattern (Lowell and de la Garza, 2000).

A more significant aspect concerning the use of remittances questions whether they are spent in a different way than other sources of income. There is empirical evidence that households with remittances have similar consumption patterns to households not receiving remittances. Yet other scholars suggest that remittances are treated differently than other sources of income and are more often saved. Household surveys in Pakistan show that a larger part of international remittances are saved (71%) compared to domestic urban-rural remittances (49%) and rental income (8.5%) (Adams, 1998). In other countries, for example Mali, remittances are used to build schools and clinics (Martin and

6. Remarkably, spending on education is generally categorised in the literature as consumption, in spite of the fact that scholars regard education as one of the main determinants of economic growth.

Weil, 2002). But the decisions of remittance senders (or receivers) to invest more or less is a rational choice about the use of their income, according to the general economic situation in their countries. Household productive investments do not depend on income, but rather on interest rates, stock prices, sound macroeconomic policies and stable economic growth (Puri and Ritzema, 1999).

Recent economic research shows that remittances, even when not invested, can have an important multiplier effect. One remittance dollar spent on basic needs will stimulate retail sales, which stimulates further demand for goods and services, which then stimulates output and employment (Lowell and de la Garza, 2000).

Most of the theoretical researches considering the multiplier effects of remittances use models that capture both migration and remittances effects on welfare. They consider remittances as a possible offset to the decline in output suffered by developing countries, caused by the loss of trade opportunities as a result of emigration. The results show that if low-skilled migrants emigrate, the welfare of the source country rises in the case that remittances are in excess of the domestic income loss. If highly-skilled persons emigrate and/or if emigration is accompanied by capital, remittances have a welfare increasing effect for the non-migrants only when the capital/labour ratio of the source economy remains unchanged or rises. If the capital/labour ratio falls, the welfare effect is indeterminate or even negative (Quibria, 1997). For example, for the central and eastern European countries, Straubhaar and Wolburg (1999) found that remittances do not compensate the welfare loss due to the emigration of the high skilled to Germany. However, when foreign capital is present in an economy, remittance financed capital accumulation improves the welfare of the economy. If remittances are spent for consumption, the welfare impact of remittances depends on the relative factor intensities of traded and non-traded goods (Djajic, 1998).

The empirical evidence indicates that multiplier effects can substantially increase gross national product. Thus for example every "migradollar" spend in Mexico induced a GNP increase of USD 2.69 for the remittances received by urban households and USD 3.17 for the remittances received by rural households (Ratha, 2003). In Greece, remittances generated at the beginning of the 1970s a multiplier of 1.7[7] in gross output, accounting for more than half of the GDP growth rate. Furthermore, high proportions of employment were supported by remittances: 10.3% in mining, 5.2% in manufacturing and 4.7% in construction. And the capital generated by remittances amounts to 8% of the installed capacity in manufacturing. Of particular interest is the finding that spending on consumption and investment produced similar multipliers of respectively 1.8 and 1.9. And contrary to common opinion, expenditure on housing was found to be very productive, with a multiplier of 2 (Glytsos, 1993). By carrying out an econometric test on data from 11 central and eastern European countries, Léon-Ledesma and Piracha (2001) found that remittances significantly contribute to the increase of the investment level of the source economies. Drinkwater *et al.* (2003) attained similar results through a study of 20 developing countries. Moreover, their results showed that remittances also diminished unemployment, but insignificantly.

Remittances do not only have positive effects on the source economy. If remittances generate demand greater than the economy's capacity to meet this demand, and this demand falls on non-tradable goods, remittances can have an inflationary effect. In Egypt,

7. One extra drachma of remittances generated 1.7 drachma of gross output.

for example, the price for agricultural land rose between 1980 and 1986 by 600% due to remittances (Adams, 1991). Along with the positive effects remittances had on Jordan's economy, in the years 1985, 1989 and 1990, they seem to have intensified recession very strongly and generated negative growth rates of over 10%. Other potential negative welfare implications of remittances are the encouragement of continued migration of the working-age population and the dependence among recipients accustomed to the availability of these funds. All these could perpetuate an economic dependency that undermines the prospects for development (Buch *et al.*, 2002).

Finally, because remittances take place under asymmetric information and economic uncertainty, it could be that there exists a significant moral hazard problem leading to a negative effect of remittances on economic growth. Given the income effect of remittances, people could afford to work less and to diminish labour supply. Using panel methods on a large sample of countries Chami *et al.* (2003) found that remittances have a negative effect on economic growth (which according to the authors indicates that the moral hazard problem in remittances is severe).

Balance of payments effects of remittances

The impact of remittances on private consumption, saving and investments is only part of the story about the contribution of remittances to the growth and development of source countries. Remittances are an addition not only to the domestic household income but also to the receipt side of the balance of payments.

Remittances offset chronic balance of payments deficits, by reducing the shortage of foreign exchange. These transfers can help to ease the often crucial restraint imposed on the economic development of the migrants' home countries by balance of payments deficits. They have a more positive impact on the balance of payments than other monetary inflows (such as financial aid, direct investment or loans), because their use is not tied to particular investment projects with high import content, bear no interest and do not have to be repaid. In addition, remittances are a much more stable source of foreign exchange than other private capital flows and for certain countries they exhibit an anti-cyclical character (Buch *et al.*, 2002; Buch and Kuckulenz, 2004; Nayyar, 1994; Straubhaar, 1988).

Developing countries quickly recognised this obvious and clearly estimable positive balance of payments effect of remittances, and measures were taken to increase such inflows of foreign exchange. But such measures must be implemented with care, because apart from the positive balance of payments effects, remittances have an impact on the economic activity in the home country. Depending on how they are spent or invested, their effects on production, inflation and imports will be different.

A crucial factor in this respect is the extent to which the additional demand induced by remittances can be met by expanding domestic output. The flexibility with which domestic supply reacts to extra demand will determine whether remittances will have positive employment effects or adverse inflation effects, and whether additional imports will be necessary.

One of the negative effects of remittances on the current account is the "boomerang effect". This occurs when remittances induce an increase of imports and trade balance deficits in the remittance-receiving country. However, most scholars disagree that it is the remittance-induced imports that cause these trade balance problems. The propensity to import can also increase as a consequence of the general development of the economy, of

a structural change in the production of consumer or investment goods, or of the international division of labour. Neither is the "boomerang effect" supported by empirical research. Evidence shows that in south European countries, remittance-induced imports between 1960 and 1981 accounted for minimums of 1% in Spain and Italy, to maximums of 4.9% in Greece and 6.2% in Portugal (Glytsos, 1993; Straubhaar, 1988).

Another negative effect can be produced where remittances generate demand greater than the economy's capacity to produce. When this demand falls on tradable goods, remittances can induce an appreciation of the real exchange rate. The overvalued exchange rate reduces the competitiveness of the domestic industries in the foreign markets (by expensive exports), in the home markets (by cheap imports), and shifts resources from the tradable sector into the non-tradable sector, so-called Dutch Disease effect. This may further lead to balance of payments pressure, a slower growth of employment opportunities, and consequently to a further increase in the incentive to emigrate. Empirical evidence from Egypt, Portugal and Turkey supports such fears, but the effect remained marginal in most of the observed cases and periods (McCormick and Wahba, 2004; Straubhaar, 1988). A possible reason for an insignificant Dutch disease effect of remittances is that the additional import of cheap capital goods may increase productivity and therefore improve the competitiveness of domestic products. Moreover, the imported capital goods may be used to substitute other imports and/or to produce exportable goods.

Further, in a system based on non-convertible domestic currency, the privilege of holding foreign currency in corroboration with inflationary tensions may have adverse consequences in monetary terms. For example, in the countries of the Maghreb, the development of a black market for foreign exchange, the increased use of swap transactions in the foreign and domestic trade, and the very high prices for foreign goods lead in the 1980s and beginning of the 1990s to a situation in which foreign exchange was used for the domestic exchange for luxuries, or to buy services in order to obtain them more rapidly. Under such circumstances of currency substitution (known in the literature as "dollarisation" or "euroisation"), the authorities of countries with a non-convertible domestic currency used to devaluate the national currency periodically in order to attract remittances from emigrants. For example, Algeria started to devaluate the dinar after 1985 and consequently its value dropped from 5 dinars a dollar in 1985 to 9 dinars a dollar in 1990, and 20 dinars a dollar in 1992 (Garson, 1994).

Conclusions

On the basis of this survey on the complex phenomenon of international migrant remittances, the following conclusions can be drawn.

International migrant remittances are a very important source of capital for developing countries. They are less important than FDI, but surpass by far official development assistance and capital market flows. Moreover, remittances are a very stable source of capital. In contrast to FDI and portfolio investment that fell sharply in the last years due to the worldwide recession, international migrant remittances grew further, evidence of an anti-cyclical character.

Many central banks face difficulties in implementing the distinctive booking of international migrant remittances as income (compensation of employees), current transfers (workers' remittances) and capital transfers (migrants' transfers), according to IMF definitions. The main problem that occurs is that many central banks in developing

countries have difficulties in distinguishing "workers' remittances" from the other private transfers. Therefore they book entire or important parts of workers remittance flows under "other current transfers of other sectors". This often means that the level of official remittance flows to developing countries is undervalued, and creates difficulties for any international comparison of remittance data. The best way to overcome this data problem is by evaluating formal remittance flows as the sum of the following three balance of payments components: compensation of employees, workers' remittances, and other transfers of other sectors.

The different hypotheses attempting to explain remittance motivations – pure altruism, pure self-interest, implicit family agreements, the migrant's saving target and portfolio management decisions – complement each other. Some or all of these motives together may simultaneously drive remittances, each one explaining a part of the amount remitted or a period of remitting practice. One motive can predominate over the other for a period or for a sample of migrants with the same characteristics, and their roles can be interchanged. This illustrates that the remittance phenomenon is a very complex one, and explains the difficulty in developing a universal theory of remittance determination. A very important recent assumption regarding the contribution of remittances in compensating the human capital loss of migrant sending countries is that migrants' propensity to remit diminishes with education. There is little empirical work regarding this issue (an exception is Faini, 2002), but if confirmed by future research, the results would be outstanding. It would imply that high skilled workers do not compensate (or compensate less) for the loss they induce to the economy they are leaving.

A significant part of the money remitted by international migrants goes to the transfer companies as profits rather than to the migrants' families in developing countries. Empirical studies show that a reduction of the costs of remitting money to the level charged by the financial institutions with the cheapest transfer services, *i.e.* commercial banks, would free up several billions each year for poor households in Africa, Asia, Latin America and eastern Europe. This can be achieved by two sets of policies in industrial, remittance-sending countries. First, policies that target fair competition and efficient markets for remittance transfers, *e.g.* ensuring transparency in pricing and greater consumer awareness about the available options. Second, innovations that allow illegal migrants to open bank accounts (such as the "matriculas" in the United States) and thus give access to cheaper transfer services. By assuring lower cost for remittance sending, larger remittance flows could be channelled through the formal financial system too.

In addition to direct impacts of remittances on migrant sending economies, *i.e.* poverty reduction, offset of balance of payments deficits, reducing of foreign exchange shortages, productive investments, etc., remittances also have positive indirect effects. These are the easing of capital and risk constraints, the release of other resources for investment and the generation of multiplier effects of consumption spending. Despite this, remittances are not a panacea and cannot substitute sound economic policies in developing countries. An economic environment that encourages emigration also limits the developmental impact of remittances in migrant sending areas. Productive investment does not depend on income, but rather on market infrastructure, interest rates, stock prices, macroeconomic policies and stable economic growth. Following models of sound macroeconomic management and development strategies involving the whole economy will be the best means to maximise the positive growth effects of remittances in developing countries.

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Table 1. Top 30 developing countries with the highest remittances received as a percentage of GDP, 2002

Country	Remittances as % of GDP	Country	Remittances as % of GDP	Country	Remittances as % of GDP
Tonga	41.9	Albania	15.6	Uganda	9.2
West Bank and Gaza	36.7	FYROM Macedonia	15.2	Guatemala	8.9
Lesotho	25.8	Nicaragua	14.6	Pakistan	8.9
Jordan	24.0	El Salvador	14.5	Morocco	8.8
Cape Verde	23.3	Republic of Yemen	12.5	Georgia	8.3
Moldova	22.8	Dominican Republic	11.7	Sri Lanka	7.9
Vanuatu	18.4	Ghana	11.3	Latvia	7.5
Bosnia and Herzegovina	18.4	Armenia	11.2	Sudan	7.2
Guyana	18.2	Honduras	11.1	Ethiopia	6.8
Jamaica	16.7	Philippines	9.9	Bangladesh	6.6

Note: "Remittances" refer to the sum of the "compensation of employees", "worker's remittances", and "other current transfers in other sectors".

Source. IMF, *Balance of Payments Statistics Yearbook,* 2003; World Bank, *World Development Indicators,* 2003.

Table 2. Top 30 developing countries with the highest total remittances received, 2002

Country	Total remittances (USD millions)	Country	Total remittances (USD millions)	Country	Total remittances (USD Millions)
India	14 842	Turkey	2 990	Indonesia	1 682
China	14 383	Egypt	2 946	Ukraine	1 670
Mexico	11 464	Brazil	2 863	Romania	1 646
Philippines	7 660	Chinese Taipei	2 547	Ecuador	1 470
Korea	7 586	Dominican Republic	2 497	Croatia	1 400
Pakistan	5 413	Colombia	2 403	Thailand	1 380
Poland	3 824	Jordan	2 227	Czech Republic	1 343
Israel	3 783	Guatemala	2 081	Jamaica	1 333
Morocco	3 294	El Salvador	2 071	Rep. of Yemen	1 300
Bangladesh	3 121	Russia	1 817	Sri Lanka	1 296

Note: "Total remittances" refer to the sum of the "compensation of employees", "worker's remittances" and "other current transfers in other sectors".

Source: IMF, *Balance of Payments Statistics Yearbook,* 2003.

Table 3. Top 30 developing countries with the highest remittances per capita received, 2002

Country	Remittances per capita	Country	Remittances per capita	Country	Remittances per capita
Israel	583	Dominican Republic	289	Korea	159
Tonga	563	Slovenia	288	Belize	154
Barbados	512	Cyprus	280	Mauritius	139
Jamaica	510	FYROM Macedonia	278	Czech Republic	132
Jordan	431	Latvia	270	Tunisia	114
West Bank and Gaza	344	Bosnia and Herzegovina	234	Mexico	114
Malta	332	Albania	229	Chinese Taipei	113
Cape Verde	321	Vanuatu	209	Ecuador	112
Croatia	320	Guatemala	174	Morocco	111
El Salvador	317	Guyana	167	Honduras	109

Note: "Remittances" refer to the sum of the "compensation of employees", "worker's remittances", and "other current transfers in other sectors".

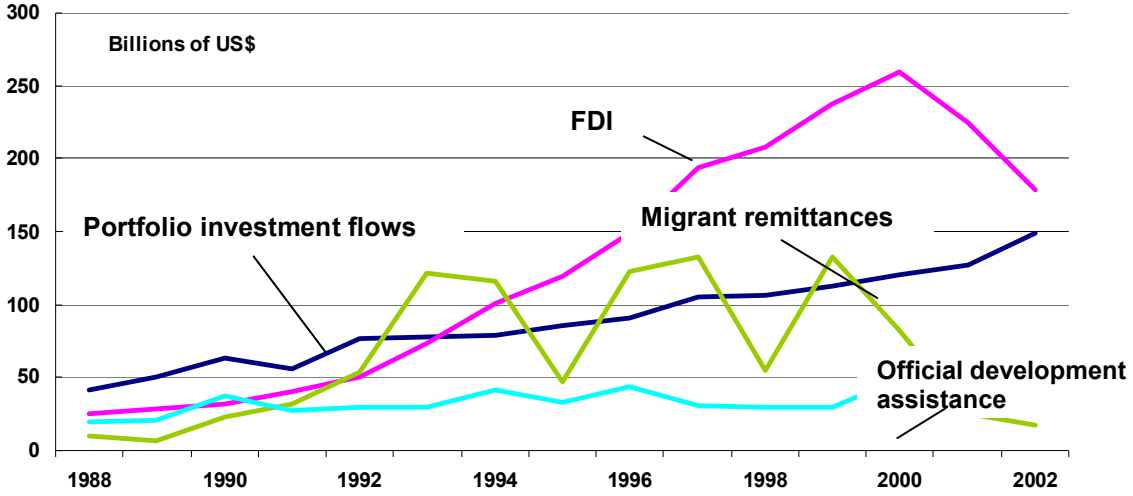
Source: IMF, *Balance of Payments Statistics Yearbook,* 2003; World Bank, *World Development Indicators,* 2003.

Table 4. Cost of remittance sending

From the six sending countries to:	Bank	Ethnic store/exchange house	International money transfer company
Egypt			13.8%
Philippines	8.0%	10.1%	10.3%
India	6.0%	2.5%	13.8%
Greece	6.8%		9.5%
Pakistan	0.4%	3.0%	13.0%
Portugal	3.4%		12.3%
Turkey	3.1%		9.5%
Mozambique	1.0%		
Mean	7.0%	6.0%	12.0%

Source: Orozco (2003).

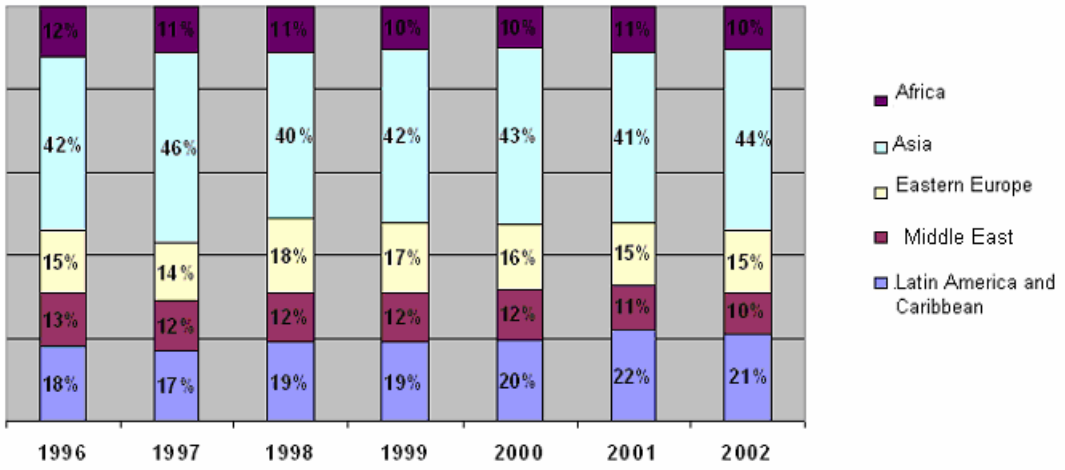
Figure 1. Migrants' remittances and other capital flows to developing countries



Note: "Remittances" refer to the sum of the "compensation of employees", "worker's remittances",and "other current transfers in other sectors"; "Official flows" include general government transfers both current and capital.

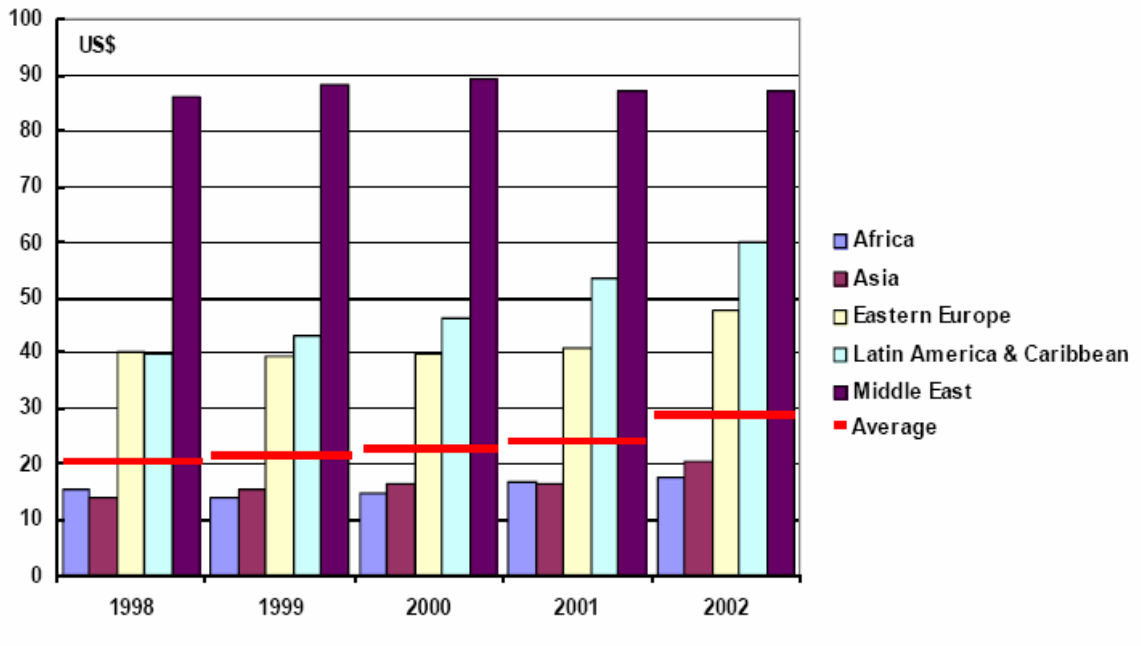
Source: IMF, *Balance of Payments Statistics Yearbook*, various issues.

Figure 2. Remittance flows to developing countries by region



Source: IMF, *Balance of Payments Statistics Yearbook,* 2003.

Figure 3. Per capita migrants' remittances by region



Source: IMF, *Balance of Payments Statistics Yearbook,* 2003.

PART I.

FINANCIAL FLOWS GENERATED BY EMIGRATION AND THEIR IMPACT ON REGIONAL DEVELOPMENT

CHAPTER 1.

MIGRANT REMITTANCES AND THEIR IMPACT ON DEVELOPMENT IN THE HOME ECONOMIES: THE CASE OF AFRICA

by

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Introduction

According to the latest figures from the United Nations,[1] the number of migrants throughout the world has more than doubled since 1975. At the turn of this new century it is reported to stand at around 175 million persons (including refugees), or 2.9% of the global population. Still largely from Europe in the 1950s, migration flows have undergone radical change and are now predominantly from the developing world. Heading the list of sending countries is China, with an annual net migration of 380 000 from 1995 to 2000, followed by Mexico, the Indian sub-continent (Bangladesh, India, Pakistan and Sri Lanka), Egypt, Indonesia, the Philippines, Turkey and the Maghreb (Morocco, Algeria). Although not high on the list, the countries of sub-Saharan Africa should not be overlooked: the emigration flows from West and East Africa as a share of the population put them among the areas with the highest rates of net emigration.[2] What is more, of the 16 million refugees throughout the world at the end of 2000, 9 million were to be found in Africa and 4 million in Asia.

As population movements are to some extent shaped by host-country immigration policies, it is somewhat rash to draw up migration projections for the years to come. Nevertheless Hatton and Williamson (2002), taking a long-term view, show that migration flows across the globe since 1850 are fairly well predicted by four economic and demographic indicators: income differentials between regions (or countries), the share of young people of working age (15 to 39 years) in the home and host countries, the stock of immigrants already in host countries (networks), and the incidence of poverty in the home country (poverty being synonymous with the inability to afford to migrate). On the basis of the latest United Nations demographic projections and the economic outlook

1. United Nations (2002), *International Migration Report*, New York.

2. For example, annual net emigration rates for the period 1995-2000 average 6.2 ‰ for Guinea; 5.5‰ for Burkina Faso; 4.7 ‰ for Mali and 3.4 ‰ for Lesotho.

for various parts of the world, the authors go on to conclude that migration pressure should not only remain constant, but even grow substantially over the next 20 years, particularly in Africa.

In the case of West Africa, the repercussions of this pressure to migrate are already highly visible: West African labour migration flows within the continent and to Europe have effectively swelled in recent years, in spite of the crises in some African host countries (Cameroon, Côte d'Ivoire, Gabon, Nigeria) and the closing of the Schengen borders. Far from curbing emigration, the restrictions imposed on labour immigration to western Europe, compounded by political and economic crises in the African countries that had traditionally accepted foreign labour, have led to the emergence of new destinations (southern Europe, United States), and driven international labour migrants underground (Fall, 2003). Senegal is a good illustration of this: whereas its workers once headed for France and some African countries, migration is now shifting increasingly to a range of countries with no particular geographical, historical, political or linguistic ties with Senegal. At the same time, the migrant labour recruitment areas have broadened to include the centre-west (the former groundnut-producing area) and most of the large urban centres. This evidence of swelling population movements, undoubtedly driven to some extent by inequalities between countries or regions, raises a whole series of questions and issues for debate, and an answer that has yet to be found to the question of the role of migration in development. Like the European migration flows to the United States which, in the late 19th century, clearly helped to bring about convergence in per capita GDP and real wage rates (see, in particular, Boyer *et al.*, 1993; Hatton and Williamson, 1998), is contemporary migration fostering economic development in the home countries?

The purpose of this chapter, confined to Africa, is to provide some answers to that question by looking at the contribution of migrant remittances to the development of the home economy. A key aspect of the migration issue, migrant transfers are for many countries a considerable source of external funding. They have accordingly been the focus of growing attention in recent years on the part of governmental and inter-governmental institutions and of civil society. This chapter begins by describing the scale of transfer flows to developing countries, and more specifically to Africa. It then gives a wide-ranging review of the latest research into the economic and social impact of remittances on local, regional and/or national development in the home economies. The chapter ends with a number of conclusions and recommendations.

Migrant remittances: a substantial and stable source of external funding

Volume of remittances sent to developing countries

The International Monetary Fund (IMF) provides an annual estimation of the remittances received and sent by each country, based on the balance of payments statistics published by central banks. This includes migrants' savings from wages or income, wages sent directly by employers, and welfare transfers paid directly to migrants or their families in their home countries (including pensions, retirement pensions, family allowances and healthcare expenses). However, it is confined to transfers via official/ legal channels (*i.e.* financial institutions, postal services) and thus excludes the financial flows from emigration sent via informal channels (including money or goods brought home by the migrants themselves on visits to their families, money sent via intermediaries, transfers via simple bills of exchange or fax, and arrangements with traders to have goods delivered directly to the family).

Based on the IMF statistics, a World Bank (WB) report puts the volume of workers' remittances transferred worldwide via official channels in 2001 at over USD 100 billion and those received by developing countries at USD 72.3 billion, or 1.3% of their GDP (Table 1.1).[3] The latter are reported to have increased in 2002 to USD 80 billion, a far higher figure than for official development assistance, evaluated at USD 55 billion that same year. In nominal terms, Asia and Latin America head the list of continents concerned by the wealth derived from migration, as they receive two-thirds of all remittances sent via official/legal channels. But it is South Asia that heads the list in terms of remittances as a share of GDP, with a rate of 2.5% in 2001. Remittance flows have risen sharply and steadily for many years (more than doubling in volume over the past decade), to become the second source of external funding in the developing world, after foreign direct investment (FDI). For the recipient countries, they offer the advantage of being far more stable than other private capital flows (such as bank loans or portfolio investment) (Figure 1.1). They have exceeded official development assistance since 1995.

Volume of remittances to sub-Saharan Africa

In the case of sub-Saharan Africa, official transfer flows are relatively low compared with the rest of the developing world. They have been estimated at USD 4 billion, or 1.3% of GDP, in 2002. Furthermore, growth has been less sustained than that described above, with remittances to this region as a share of total remittances to developing countries falling from around 8% in 1980 to 5% in 2002. But the financial spin-offs from international migration have been substantial in a number of countries (Table 1.2). During the 1990s, they accounted for 201%, 99.1% and 48.5% of exports in Cape Verde, Lesotho and Sudan respectively, over 30% of exports in Burkina Faso, the Comoros and Egypt, and over 20% of exports in Mali and Morocco. In the same decade, the per capita figure stood at USD 205 in Cape Verde and Lesotho, USD 103 in Swaziland, over USD 70 in Morocco and Egypt, and USD 42 dollars in Botswana. It should be noted that these figures are imprecise. Like other developing countries, many African countries do not have the statistical tools to evaluate with precision the remittances sent home by workers abroad. Hence the long list of countries for which data on transfer flows are not available (see note to Table 1.2). Moreover, the share of transfers sent via informal channels (and thus not counted) is likely to be particularly high in the case of African countries, owing to the complexity and often exorbitant cost of transferring money via banks (see Box 1.1), for instance, or to the slowness and lack of reliability of the postal services.[4] The figures derived from official balance of payments statistics can therefore be expected substantially to underestimate the amount of money at stake.

3. World Bank, *Global Development Finance,* 2003, Chapter 7, Washington.

4. Other factors influencing the choice of transfer mode include the migrant's status (legal or illegal) in the host country, and the geographical coverage of formal financial institutions in the home country. Furthermore, economic instability or excessive constraints in the home country, political crises or open conflict generally result in a drop in official transfers.

Box 1.1. Cost of an international money transfer via banks or postal services: examples from Uganda and Tanzania

The cost of an international money transfer varies with the provider and the amount to be transferred. For large amounts (over USH500 000 in the case of Uganda or TSH5 million in the case of Tanzania), the commercial banks provide the cheapest service. On the other hand, the postal service is cheaper for very small transfers.

Cost of an international money transfer to/from Uganda
(as a % of nominal value transferred)

Provider	Amount transferred (in USH)								
	10 000	50 000	100 000	500 000	1 000 000	2 000 000	5 000 000	10 000 000	20 000 000
Western Union	170	34	17	9.6	6	4.8	4.1	4	4
Commercial banks	200	40	20	4	2	1	0.6	0.6	0.6
EMS	35	11	8	6.4	6.2	6.1	6	6	6
Postal order	15	7	6	5.2	5.1	5.1	5	5	5
MoneyGram	211.2	52.8	35.2	7	5.3	5.3	5.3	4.4	3.2

Note: USH = Ugandan shillings; USH 1 760 = USD 1.
EMS: Expedited Mail Service.
Western Union and MoneyGram are non-bank financial institutions specialising in international money transfers. Another feature of these institutions, in addition to their speed and reliability, is that they do not provide any services other than receiving and sending money.
Source: Sander *et al.* (2001).

Cost of an international money transfer to/from Tanzania
(as a % of nominal value transferred)

Provider	Amount transferred (in TSH)								
	10 000	50 000	100 000	200 000	500 000	1 000 000	2 000 000	5 000 000	10 000 000
Western Union	90	18	14	9.5	6.6	5.2	4.6	4.2	4
Commercial banks	100	20	10	5	5	5.0	5.0	0.1	0.1
EMS	30	12	7	5	5.4	3.2	2.1	1.4	1.2
Postal order	20	8	6	6	6	6	6	6	6
MoneyGram	97.8	19.6	12.2	8.2	6.5	5.7	4.1	4.1	3.3

Note: TSH = Tanzanian schillings; TSH 815 = USD 1.
Source: Sander *et al.* (2001).

Some one-off studies based on *ad hoc* surveys illustrate this. With regard to Sudan, Choucri (1986, quoted by Puri and Ritzema, 1999) estimates that 85% of remittances received by the country in 1984 were sent via informal channels. With regard to Ghana, Anarfi *et al.* (2000) estimate that 95% of transfers are made in kind. Finally, according to a survey of Malian and Senegalese immigrants residing in France in 1997, over half of the remittances sent back to the home country were sent via channels other than those set up by banking and postal institutions (Box 1.2). For Senegal, Tall (2001) reaches the same figure.

Box 1.2. How Malians and Senegalese immigrants in France transfer their savings

Who sends what?

Whether from Mali or Senegal, immigrants living in France send roughly the same amount home, the annual average being FF 9 200 (EUR 1 400) for Malians and FF 8 800 (EUR 1 340) for the Senegalese.

How?

Among Malian and Senegalese immigrants, the two most commonly used modes of transfer are, first, the services of an intermediary visiting the home country, and second, postal orders. They account for 56% and 15%, respectively, of the total amount transferred. Over half of transfers to the home country go through channels other than those set up by banking and postal institutions. While these two methods (intermediaries and postal orders) are the most common in terms of the number of transfers or the number of individuals making the transfers, the average amount varies substantially with the mode of transfer. Bank transfers are used for larger amounts (an average of FF 12 908 or EUR 1 968 per transfer) and postal orders for smaller amounts (FF 1 596 or EUR 43 per order). The unreliable postal networks in both countries, a problem often raised in survey interviews, explain why smaller amounts are transferred in this way: it is a question of risk limitation. Conversely, there appears to be great confidence in international bank-transfer systems, given the average amount transferred via that channel. Allowing for the substantial difference in average amounts transferred by each method, postal orders account for 15% of the total amount transferred while bank transfers, although not numerous, capture some 14% of all transfers. With its orders and transfers, the banking system captures some 19% of total transfers. Postal systems, often perceived as the mode of transfer preferred by immigrants, actually rank second to commercial banks in terms of the amount transferred.

A breakdown by mode of transfer of the remittances sent home by Malian and Senegalese immigrants contradicts the traditional picture of such practices. While it is not at all surprising that over half of all the amounts transferred do not go through official banking and postal channels, the role played by commercial banks compared with postal services in transfers as a whole may come as a surprise. But for Malian and Senegalese immigrants, the best way of sending money home is still through an intermediary.

Source: Blion et Verrière (1998)

Household surveys can be another source of data with which to refine remittance statistics. Using an original survey carried out in the Kayes area, Mali, Gubert (2002) manages to estimate for example, the proportion of migrants sending remittances, and the average amount remitted per migrant, based on details given by their relatives back in the home country. She estimates the average remittance to Mali from France per emigrant in 1996 to be around CFAF 775 000 (EUR1 180) (Table 1.3).[5] Average remittances from other host countries are markedly lower. Emigrants living in Gabon sent an average of CFAF 115 000 (EUR 175) back to their families, those in other Central African economies sent CFAF 67 000 (EUR102) and those in West Africa less than CFAF 30 000 (EUR 46). Countries in the rest of the world category (which includes Libya and Saudi Arabia) are, after France, the most profitable destinations in terms of remittance flows. On the basis of these survey findings, and bearing in mind that some 120 000 Malian

5. Sampling bias in favour of legal immigrants may explain why the average remittance amount obtained by Blion and Verrière (1998) (Box 1.2) is higher than the figure obtained here. Furthermore, the amounts declared by migrants surveyed in France include transfers sent to payees outside the family. According to the survey, remittances sent to the family account for only 75% of the total amount of money transferred. Consequently, out of an average of EUR 1 400, only EUR 1 125 actually go to the migrant's family. This second figure is much closer to that obtained by Gubert (*op. cit*).

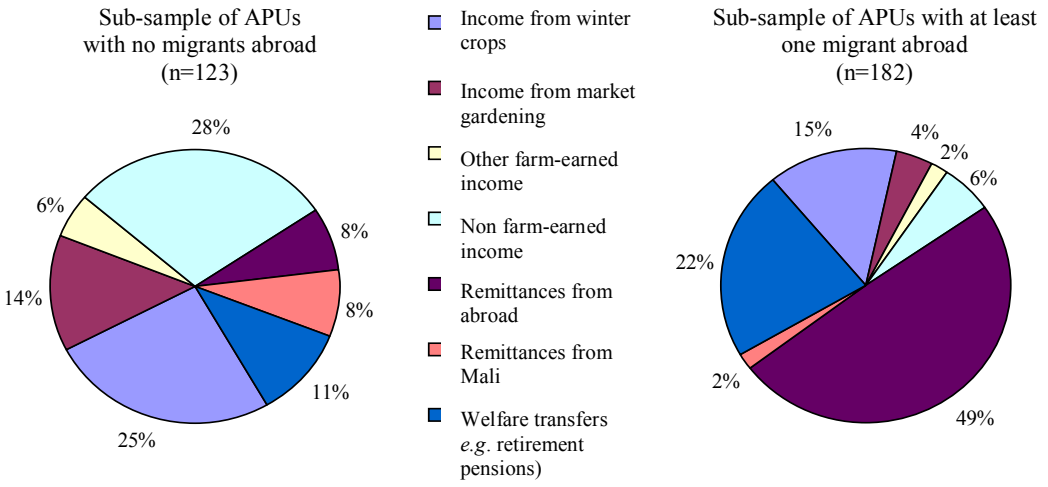
emigrants live in France,[6] an estimated CFAF 93 billion (120 000 x 775 000) were sent in remittances from France to Mali in 1996 alone. For comparison purposes, the estimated volume of remittances sent to Mali as published in the official statistics of the Central Bank of West African States (BCEAO) was CFAF 46 billion that same year. Yet this figure includes remittances not just from France, but from all over the world. Although the case of Mali cannot be extrapolated to the rest of Africa, these few figures reveal the many limitations of transfer statistics based on the balance of payments. They legitimate direct survey methods that seek information on remittance and savings practices in immigrant population groups, or household surveys containing detailed questions on transfers received and sent, the form they take (money or kind), where they come from[7] and how they are sent.

Household surveys are also useful in that they show remittances as a share of the recipient's income (see Box 1.3).

Box 1.3. Remittances as a share of household income: an example of the Kayes area, Mali

Regardless of origin, migrant remittances account for 16% of the total income of agricultural production units (APU)(*) with no migrants. The figure rises to 51% on farms with members that have emigrated. When welfare transfers linked to retirement pensions are included, three-quarters of the income of APUs with migrant members are found to come from abroad.

APU income structure by participation in international migration, 1996



Source: Gubert (2000).

The share of income derived from migration accounts for the relatively high standard of living on some farms in the sample. The annual average per capita income of APUs participating in international migration is almost 1.6 higher than on other farms.

6. According to the French Ministry of the Interior statistics, 41 000 Malians hold residence permits. To this should be added the illegal immigrants, estimated at more than double that figure.

7. Unfortunately, a large number of national household surveys do not enable a distinction to be made between remittance flows from within the country and remittance flows from abroad.

Annual per capita income of APUs participating in international migration, 1996

Source	Average per capita income	
	APU with no migrants abroad (n=123)	APU with migrants abroad (n=182)
Farm-earned Income	30 400	22 139
Non-farm-earned income	19 904	6 214
Income from migration*	10 415	53 810
Welfare transfers	7 227	23 714
Total	67 946	105 878

*APU is the statistical unit used for survey purposes.
Source: Gubert (2000).

Impact of remittances on development in the country of origin: a review of the literature

While it is commonly accepted that there are close linkages between development and international migration, the impact that migration and the ensuing remittance flows have on economies of origin is still a widely-debated issue. A review of the literature shows that it would be idealistic to believe that the financial transfers derived from emigration automatically trigger development. Official flows alone are substantial enough to have a considerable impact on a country's balance of payments and help to reduce its domestic savings shortfall. However, while remittances may play a beneficial role in funding imports and investment, they are frequently criticised for leaving countries dependent and hence vulnerable. The arguments generally put forward are manifold: remittances can reportedly push up the demand for imports to the detriment of locally produced goods, for instance, and do not have a multiplying effect on the economy; they are said to be a source of inflation and hence real exchange-rate appreciation in countries lacking supply-side flexibility: Dutch disease; and they are accused of encouraging rent-seeking.

Theoretically, the expected repercussions depend largely on the profile of would-be emigrants, the size of migration flows and the pre-remittance income levels of households participating in migration. The impact of remittances is intrinsically linked to their allocation and more specifically, to the breakdown between consumption and investment. When migration is undertaken in conditions of great poverty, remittances are spent largely on daily consumption, hence the criticism that they make very little contribution to local development. But when migration is a response to credit market failures, remittances enable capital investment and may thereby promote output growth.

Impact of migration and remittances: academic studies[8]

Until the late 1980s, the literature focused on the short-term impact of migration and remittances on relative prices and welfare in the home countries and took as a framework for analysis the Australian (or dependent economy) model developed by Salter and Swan. Rivera-Batiz (1982) shows that, without remittances, emigration by part of the labour force reduces the welfare of those left behind. The argument is that migration leads to a shrinkage in output that is greater for non-tradeable goods (more labour intensive) than for tradeable goods. This pushes up the relative price of non-tradeable goods and accordingly brings about a deterioration in the welfare of non-migrants in the home country. On the other hand, Djajic (1986) shows that migration may improve the welfare of non-emigrants, if remittances are taken into account. By once again providing scope for the exchange of tradeable and non-tradeable goods within the country, remittances improve the welfare of those who stay behind, including those who receive no remittances because no members of their family have emigrated. Consequently, the net effect of migration is ambiguous and depends on the relative importance of the shrinkage effect in the domestic market and the feedback effect of remittances (Figure 1.2).

In the late 1980s and early 1990s, short-term impact studies on migration were gradually replaced by long-term work aimed at identifying channels via which migration and remittances might be beneficial for, or on the contrary detrimental to, growth in the home economies. Initially, the terms of the debate focused solely on the use made of remittances. Several authors showed that a substantial share of these remittances went towards repaying debts incurred by migrants at the time of departure or towards daily expenditure (on food, shelter, clothing, healthcare, and so on), and thus concluded that remittances had only a limited impact on development. Some also put forward the idea that remittances could hamper development by keeping households at their pre-migration income levels, while reducing their labour supply. Then, some authors (particularly Stark, 1978, 1980) endeavoured to give a more optimistic view of remittances by showing for instance, that imperfect rural credit and labour markets provided households with the resources required to innovate or merely cover the full costs of the agricultural production cycle (*e.g.* purchasing seed and inputs, hiring equipment). Viewed from this angle, remittances contribute to productivity growth and their marginal impact on household income may be greater than unity.

Next came studies analysing the impact of remittances on home-country growth via their impact on income inequalities. Several authors (Stark, Taylor and Yitzhaki, 1986, 1988; Taylor, 1992; Taylor and Wyatt, 1996) put forward the idea that remittances reduced income inequalities in the migrant's community of origin and helped to ease household liquidity constraints, thereby promoting investment in physical and human capital. Although economists first began looking into the causality link between inequalities and growth in the early 1990s (see in particular Banerjee and Newman, 1993; Galor and Zeira, 1993), only recently has the long-term impact of remittances been analysed as part of an endogenous growth model (see for instance, Mesnard, 2001; Docquier and Rapoport, 2003a). Mesnard (2001) shows, for example that 26% of Tunisian workers who returned home for good between 1974 and 1986 set up businesses with their savings upon their return. On the basis of this empirical evidence, the author proposes a successive generation model to compare trends in an economy's distribution of wealth, depending on how open its borders are to labour emigration. The model shows

8. For a full review of the literature serving as a basis for this section, see Docquier and Rapoport (2003b).

that when there are indivisibilities and imperfections on the capital market, temporary labour emigration and the ensuing accumulation of capital disrupts the distribution of wealth in the home economy at a given time; this is perpetuated via inter-generational transfer and may put the economy onto a path to prosperity. Emigration, even when confined to a small number of workers, can thus take a developing country from stagnation to growth. A similar type of outcome is obtained when liquidity constraints curb household investment in human capital.

Empirical examples

The scale of the academic debate, outlined above, on the links between migration and economic development in the home countries contrasts with the small number of empirical studies on the subject. This stems mainly from the lack of reliable, harmonised data on several of the relevant variables (*e.g.* emigration rate by country or by skill, amounts remitted) and the absence of long time-series, which are vital if use is to be made of the latest macroeconometric tools.[9] Consequently, the only empirical literature to be found is confined largely to a few case-studies based on microeconomic data. The list of studies applying to Africa is even shorter and sheds insufficient light on the role played by remittances in the development of the countries that receive them.[10]

Migration, remittances and poverty

A few studies using a range of methodological options have attempted to assess the impact of remittances on poverty.

Using cross-cutting data on 74 low or middle-income developing countries, Adams and Page (2003) show for instance, that a 10% rise in the share of the population migrating to other countries brings about a 1.9% fall in the share of people living on less than USD 1 a day. The impact that migration has on poverty however varies with the country group: it is not significant in eastern Asia or Latin America, but the reverse is true in all the other developing regions, including the African continent.

Other work on this topic is based on national household surveys (Gustafsson and Makonnen, 1992; Lachaud, 1999; Leliveld, 1997). The most convincing work to date is by Lachaud (1999), based on data from a national priority survey conducted in Burkina Faso in 1994/1995.[11] Beginning with a description of the data, the author shows that household living standards in Burkina Faso stem from four main sources of income: farm-earned income (43%), non-farm-earned income (27.8%), transfers (mostly national and international remittances) (18.6%), and wages (10.6%). The author also shows that 32.4% of rural households and 27.7% of urban households receive remittances which, when broken down by origin (national or international), vary markedly with the milieu, living standards and occupational/demographic profile of the head of household. The

9. Tests for variable stationarity and co-integration are not very reliable when conducted on a small number of observations.

10. For microeconomic work applying to countries other than Africa, readers should refer to Cox-Edwards and Ureta (2003) (on the links between migration remittances and educational pathways); Massey and Parrado (1998); Woodruff and Zenteno (2001), and Dustmann and Kirchkamp (2002) (on the links between migration, remittances and enterprise creation); Adams (1998) and Rozelle *et al.* (1999) (on the links between migration, remittances and rural development).

11. Lachaud (2000) also highlights the impact that private transfers by Comoros emigrants living in France have on poverty, particularly on the Island of Grande Comore.

share of remittances from foreign countries (in particular Côte d'Ivoire) is prominent in households where the head is a farmer and – to a lesser extent – inactive, and also in rural households, whereas in most of the other socio-economic groups, remittances come largely from within the country. Confining the analysis to households that receive remittances, the author finds that the incidence of remittances is greater in absolute terms and smaller in relative terms, depending on the household's living standards. Following this descriptive analysis, Lachaud addresses the impact of remittances on poverty, first by considering these financial flows as exogenous transfers of income, then as potential substitutes for locally generated household earnings. The principle behind this second method consists in replacing remittances by the value of the income accruing to migrants and other members of the household without migration. In the first case remittances, considered to be exogenous, tend to have an equalising effect on incomes and a substantial impact on household welfare, particularly in rural areas. In the second case (*i.e.* after working out the living standards that recipient households would have without remittances), analysis shows that remittances help to reduce the incidence of rural poverty by 7.2 percentage points and urban poverty by 3.2 percentage points. However, the reduction in the poverty ratio is statistically significant only for subsistence farmers and the inactive in rural areas, and for the traditionally more vulnerable socio-economic groups (unemployed, self-employed) in urban areas. The author does qualify these findings by specifying that a country heavily dependent on remittances from abroad is still inherently fragile. The relative importance of remittances in household incomes in Burkina Faso does make living standards there subject to the vagaries of the economy in neighbouring countries. Recent events in Côte d'Ivoire and the growing incidence of poverty in Burkina Faso as a result are an illustration of this (Lachaud, 2004).

The vicious circle of remittance dependency is also highlighted by Gustafsson and Makonnen (1992) and Leliveld (1997). The former base their work on data from a survey carried out in 1986/1987 among 7 680 households to assess how the return of migrants and cessation of remittances would affect the poverty profile of Lesotho, a country with high out-migration of male labour to South Africa. Pointing out that remittances were the main source of income for 35% of households in the sample, the authors simulate the impact on poverty if remittances were to cease, simply by subtracting the remitted amounts from household consumption, and increasing household size by the number of migrant members. They conclude that household consumption per capita would decline by an average of 40%, thereby increasing the incidence of poverty by 14 percentage points. Using data collected in 1990 from 195 rural households, Leliveld (1997) attempts to assess the extent to which household living standards in Swaziland would deteriorate if there were fewer opportunities to emigrate to South Africa. He shows that here too, migrant transfers form a large share of the household's disposable income and that, in the short term, many would be unable to meet their basic food needs if remittances were to cease and migrants were unable to find work upon their return.

These studies are admittedly based on some very restrictive hypotheses[12] and rather simplistic simulations, since most of them take into account only the direct impact of remittances. They accordingly leave out all the indirect effects (both positive and negative) that remittances can have on the other sources of household income, and overlook the multiplying effect that remittance-generated expenditure can have on the

12. Gustafsson and Makonnen (1992) and Leliveld (1997) assume, for instance, that migrants cease all contributions to household income upon their return.

income of households that do not participate in migration. Yet this multiplying effect may be substantial when household demand is for labour-intensive goods or services.[13] Nevertheless, the studies are a useful demonstration that, while it is not necessarily the poorest who emigrate, basically because they cannot afford to, remittances are a relatively efficient means of combating transitory poverty and vulnerability and act as insurance in environments that are often highly unstable from a meteorological, political and economic standpoint.

Migration, remittances and risk diversification

The function of remittances as insurance, mentioned above and comprehensively described by Stark (1978), and Stark and Levhari (1982), has been highlighted in several studies applying to Africa (Lucas and Stark, 1985; Stark and Lucas, 1988; Drèze and Sen, 1989; Schrieder and Knerr, 2000; Gubert, 2002).[14]

Using a national study conducted in Botswana among 3 179 people in 1978-1979, Lucas and Stark (1985) and Stark and Lucas (1988) show that periods of drought are accompanied by an increase in the remittances received by households with assets that are heavily dependent on rainfall (livestock, land). According to the authors, this is evidence of risk diversification through migration. Drèze and Sen (1989) show how many rural households in Kenya were saved from the 1984 famine by remittances from relatives or friends, particularly those living in urban areas.

More recently, a study by Schrieder and Knerr (2000) looks at the case of Cameroon using data from a repeat household survey conducted in 1991-1992 in two regions characterised by a serious lack of food security. The paper begins with a description of the data showing that remittances account for 26% of per capita income in the 140 households in the sample and that they are highly seasonal (the average amount remitted during the wet season being half that sent in the dry season). The subsequent econometric study however shows migration and the remittances it generates to be an imperfect insurance mechanism.

Finally, the study by Gubert (2002) focuses on the remittance behaviour of a sample of migrants from the Kayes area in Mali. Its aim is to look at the extent to which remittances provide recipient households with protection against the risks they have to face, based on an econometric estimation of a transfer function. The test introduces three variables into the regression, measured over the 12-month period preceding the survey: per capita healthcare expenditure by the household, the number of deceased persons, and a farm-income shock variable estimated from the data. The justification for these three variables is that they take into account the various types of risk facing households: the risk of illness or death, which require unplanned expenditure (*e.g.* consulting doctors, purchasing drugs, organising funerals) and may affect household income (*e.g.* when invalids are unable to undertake farm work or sow crops at the right time), and the risks linked to farming. An analysis of the estimations show a positive and statistically

13. In the case of the Kayes region, Mali, many local activities are established and sustained with the money from migration (Gubert, 2003). One example is market gardening, which would probably not have become so popular if smallholders had not been sure of being able to sell their produce to households receiving remittances. The construction industry also provides numerous jobs and undeniably stimulates the local labour market, to the benefit of households that do not directly participate in migration.

14. For case studies on countries other than in Africa, see Rosenzweig and Stark (1989), de la Briere *et al.* (2002), and Cox *et al.* (1998)

significant correlation between the shocks suffered by households and the amount they receive in remittances. This is only to be expected, assuming that families send some of their members away on migration as an insurance against risk. It also shows that the amounts remitted are larger when they come from close relatives, suggesting that mutual ties make relatives more responsible and more reliable insurers.

Migration, collective remittances and social development

Migrant associations in host countries, known in French-speaking countries as "*Organisations de solidarité internationale issues des migrations*" (OSIM), also help to improve the living standards of those who stay behind by playing an active role in setting up and financing development projects in the villages back home. According to a recent study (Daum, 2000), there are reported to be some 1 000 OSIMs in France, one-third of them for immigrants from countries in the Senegal River Valley (Mali, Mauritania, Senegal) and another third for those from elsewhere in sub-Saharan Africa. Also high on the list are the 101 OSIMs for migrants from the Indian Ocean (Comoros and Madagascar). Initially confining their work to more prestigious projects such as the construction of mosques, these associations have gradually expanded to cover every aspect of daily life in the villages with projects ranging from hydraulics to healthcare, and from basic education to cultural exchanges (Box 1.4). A few figures from studies that have unfortunately not been updated give an idea of the scale of this phenomenon. In the administrative district of Yelimane, north of Kayes, Mali, the development association *Association pour le développement du cercle de Yélimané en France* (ADCYF) in 1996 counted among its projects 180 wells and boreholes, 70 schools, 11 dispensaries and 19 co-operatives, almost entirely funded by migrant associations in France. In monetary terms, these projects represent a total of some CFAF 7 billion (ADCYF, 1996). In the Kayes area, 64% of all village infrastructure is attributed to migrants (Libercier and Schneider, 1996). A further study in 2000 specifies that French-based associations of Senegalese immigrants from the Senegal River Valley have on average 132 members whose contributions make for some EUR 10 000 in annual investment in the villages back home (Champetier and Drevet, 2000). Today, many of the OSIMs are still contributing towards the operating costs of the infrastructure they have built. Their members' contributions are used to pay healthcare and teaching staff, for instance, and to stock dispensaries with drugs and vaccines.

Therefore, while there appears to be a consensus that remittances improve the living standards of thousands of households in the short term, particularly in Africa, the question as to whether migration and remittances contribute to endogenous development remains open. The fact that remittances ease the budget constraints and improve the welfare of urban and rural households does not necessarily mean that they are drivers for development. As Ellerman (2003) points out, there can only be endogenous development in a community heavily dependent on migrant remittances if this financial windfall fosters the emergence of sustainable productive activities irrespective of migration. At the household level, it should encourage income diversification or investment in physical or human capital, so that families can become increasingly less dependent on migration rent and economically more independent. In theory, the existence of tight liquidity constraints owing to imperfectly functioning credit markets in many developing regions should encourage this productive use of remittances (Stark, 1980). How true is this in practice?

Box 1.4. Example of an OSIM or migrants' association: Gidimaxa Jikké

Gidimaxa Jikké was set up in 1988 and has 3 000 members, all Malians from the district of Aourou in the Kayes area. The Aourou district numbers 24 villages and 45 000 inhabitants who practise farming (growing grain crops such as millet, sorghum, maize and rice), during the two to four months of the wet season, but cover only 75 or 80% of the district's consumption requirements. In terms of community infrastructure, the district is one of the least well-endowed in the area.

Below is a list of the association's projects and programmes:

- Water supply: wells have been dug in 5 villages and filtering dykes built for flood protection in 4 other villages.
- Healthcare: regular vaccination campaigns, in particular for childhood illnesses such as measles, whooping cough and polio; funding for 12 community healthcare centres; emergency drug shipments following epidemics of meningitis and cholera.
- Education, training and literacy: regular sessions are organised and financed by the association to help train the population in project-management techniques enabling them to define and analyse their priorities and launch the necessary initiatives; some 120 women have been trained in dyeing techniques and soap and cream-making; literacy classes have been set up in several villages, with the purchase of 430 textbooks. The teaching staff in these centres is trained through a partnership with the American NGO Paro-Mali.
- Micro-projects: this field has benefited considerably from the success of the education, training and literacy programmes. The projects focus mainly on market gardening (the association covers all or some of the cost of large amounts of tomato, onion, lettuce and other seed), crop storage and pond creation.
- Opening up the area: many paved fords have been built, making it possible to cross rivers and backwaters during the wet season.

Source: CFSI (2003).

Migration, remittances and rural development

A review of the literature on this subject reveals widely diverging situations. In the case of Botswana, Lesotho, Malawi, Mozambique and the South African homelands, characterised by substantial out-migration to the mining areas of South Africa, Lucas (1987) shows that the absence of part of the labour force led to a decline in agricultural output in the short term, but that migrant remittances helped to increase productivity and the accumulation of livestock in the long term (except in Lesotho). However, the author is unable to say whether the observed increase in agricultural output stems from a more intensive use of inputs, the purchase of new equipment or the adoption of production techniques with greater risks but also higher yields. Nor can the author say whether these gains in productivity can offset the loss of labour through migration.

Another study, this time confined to Lesotho, suggests that remittances from South Africa enable the recipient households to respond more rapidly to agricultural constraints than households with no migrants. This explains why technical inefficiency, defined as the inability to obtain maximal output from a given set of inputs, is lower in households that receive remittances than in those that do not (Mochebelele and Winter-Nelson, 2000).

In the case of Kenya, the study by Rempel and Lobdell (1978) reaches the conclusion that the remittances generated by internal migration have little impact on development in the home regions. This is contested by Collier and Lal (1984), who show that income from farming (excluding livestock) in Kenyan households is a positive function of non-farm-earned income, all other things being equal. Both studies conclude that urban to rural remittances, which were the main source of non-farm-earned income in the households in their sample, did help to reduce rural poverty during the 1960s and 1970s. A more recent study carried out in the west of the country (rather than the centre studied by Collier and Lal) shows migration to have been a differentiating factor between households in the long term, owing to the beneficial impact of remittances not on farm incomes but on the accumulation of human capital, giving the following generation access to well-paid jobs in the urban labour market (Francis and Hoddinott, 1993).

One limitation of the research reviewed above however is that it proposes an assessment of the impact of remittances, without referring to underlying motives. In other words, its analysis of the impact of remittances is disconnected from that of their determinants, even though in all likelihood the latter affect the former. Two recent studies are an exception here, namely Azam and Gubert (2002) on the Kayes area in Mali, and Chami *et al.* (2003), which is also distinctive in addressing the impact of remittances on growth from the macroeconomic angle, based on a sample group of 113 countries over the period 1970-1998.

The paper by Azam and Gubert (2002) is based on the *a priori* paradoxical observation that family farms receiving remittances, in spite of having more capital and labour, achieve significantly lower yields than farms that do not receive remittances, without this being clearly attributable to differences in soil quality, cropping techniques or other factors (Box 1.5). Backed up by evidence on the ground, the authors opt for the explanation that the insurance function of remittances, while substantially enhancing the welfare of the families that receive them, also generates rent-seeking behaviour on the part of those families. Assuming that the insurance mechanism is such that migrants send remittances home whenever their families are no longer sure of having access to enough food, and that the effort put in by families cannot be observed by the migrants, the authors show that families have an incentive to cheat by putting in less effort and relying on migrants for their livelihood.

This moral hazard hypothesis is also found in Chami *et al.* (2003), but has been tested on a sample group of 113 countries over the period 1970-1998. The authors estimate a growth equation and introduce remittances as a share of GDP, along with the traditional determinants of growth. Whatever the estimator, remittances are found to have a significantly negative effect on economic growth.

Apart from these few studies based on localised samples, the main criticism levelled by a host of papers and reports from local development operators is that migrant-driven projects are non-productive.[15] The few productive investment projects they do finance are generally in urban areas and in sectors most likely to generate income (*e.g.* real estate, transport or the hotel business).[16] In rural areas, most projects are abandoned before they

15. For instance, fewer than 10% OSIM (migrants' association) projects fall into the category of private or collective economic initiatives (*e.g.* supporting craft activities, establishing co-operatives) (Daum, 2000).

16. Most of the large hotels in Ouagadougou (Burkina Faso), for instance, are owned by people who have spent a long time abroad.

have time to generate any notable spill-over effects on the village economy. The few that actually last are those that facilitate the household distribution of consumer goods (*e.g.* general stores and grain banks), or provide support for the purchase of farming equipment. Of the several possible explanations here, the main ones relate primarily to the physical, economic and/or institutional environment. In rural areas, particularly poor weather conditions and inadequate or inexistent road infrastructure are commonly factors that drive small farmers out of agriculture and offer no incentive to reinvest migrants' remittances in the local economy. Owing to the price of goods and inputs, the type of technology available and the conditions for market entry, investment does not always appear to be economically efficient. Migrants accordingly prefer projects in areas that are not economically productive, *i.e.* those traditionally covered by the public sector.

Other impacts of migration and remittances

The empirical work presented above describes the mechanisms relating to short-term effects only. From a longer-term perspective, putting remittances to uses that are not directly productive may strongly impact on the mainstays of development such as health, education, culture or the environment. By shielding households from transitory poverty, for instance, which has been shown to be one reason for dropping out of school (see, in particular, Sawada, 2003), remittances may eventually have a substantial impact on the accumulation of human capital and hence on growth. Some recent studies, regrettably confined to countries in Latin America or Asia, support this.[17] Similarly, by offsetting the lack of health insurance schemes and the inadequacy of medical infrastructure, remittances help to improve public health and, ultimately, the quality of the labour force. This impact is very hard to measure in quantitative terms however and remains an area of research that has yet to be explored. In a completely different vein, Guilmoto and Sandron (2003) note that by disrupting major institutions such as the relations between gender, generations and social class, emigration and remittances may be a factor of social change in the home regions. More specifically, they may be part of a trend that challenges the principle of gerontocracy and the inherited inequalities of social status that often lie behind the emergence or persistence of some forms of poverty. A study in Egypt[18] shows, for instance, that migrant's wives are taking on important new financial, productive and supervisory responsibilities, and managing to break out of the traditional pattern of production/consumption centred around the extended family. Some are investing in the family farm, but most prefer to invest the remittances in their non-farm activities.

17. Hanson (2002) uses census data on the population of Mexico in 2000 to test the hypothesis of a link between migration and investment in human capital. Econometric test findings suggest that children from families with one or more migrant members complete between 0.7 and 1.6 more years of schooling than those from families with no migrants. Furthermore, the impact of migration on schooling is more noticeable among girls than boys and increases with age. Using the findings of a household survey in El Salvador covering 14 286 individuals in the 6-24 age group, Cox-Edwards and Ureta (2003) show that migrant remittances markedly reduce the likelihood of dropping out of school. In urban areas, the estimated effect is tenfold that of other income sources. With regard to the Philippines, Yang (2003) shows that an increase in remittances leads to a marked increase in the proportion of people in higher education in the 17-21 age group. Schooling also increases in the 10-16 age group, but less sharply.

18. Palmer (1985), cited in Roca (1993), p. 5.

Box 1.5. Migration, remittances and farming: the example of the Kayes area

Although production techniques have clearly been modernised, the situation among households participating in migration is characterised by stagnating or even declining output, without this being really attributable to a shortage of labour. The substantial monetary income derived from migration means that men work less on the farm, which in turn leads to lower output per cultivator and hence far less grain self–sufficiency than in other households.

Farm tools and family labour, by migration status

	Overall (n=303)	Households without migrants (n=81)	Households with migrants (n=222)	z(*)	P>|z|
% of households owning:					
a plough	19	15	20%	-1.07	0.28
a hoe	50	30	58	-4.46	0
a cart	45	25	53	-4.46	0
a sower	13	9	15	-1.42	0.16
Household labour:					
No. of men	4	3	4.4	-4.24	0
No. of women	5.5	3.4	6.3	-6.21	0
No. of children	1	0.7	1.1	-1.97	0.05

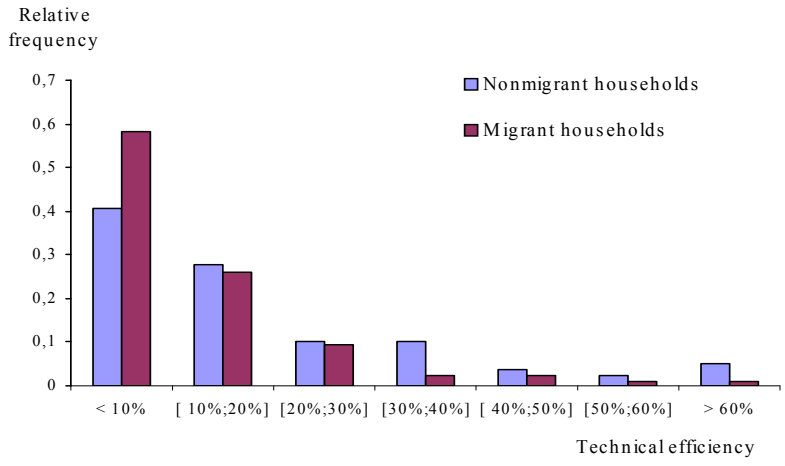
*Mean comparison test.
Source: Azam and Gubert (2002).

Value of crop output, by migration status (CFAF 1 000)

	Overall (n=303)	Households without migrants (n=81)	Households with migrants (n=222)	t(*)	P>|t|
Output, 1995	435.8	303.9	484.0	-4.15	0.00
Output, 1996	365.7	311.3	385.6	-1.85	0.07
Output per cultivator, 1995	45.2	46.3	44.9	0.37	0.71
Output per cultivator, 1996	42.9	54.4	38.07	3.28	0.00

*Mean comparison test.
Source: Azam and Gubert (2002).

Breakdown of family production units by technical efficiency and migration status



Conclusions and recommendations

The remittances that migrant workers send back to their home countries are the main source of external funding for developing countries, along with foreign direct investment. The lack of full and reliable data on the amounts involved makes it extremely problematic to draw any definitive conclusions about their beneficial impact on development. Nevertheless, a summary of leading studies in this area shows that there is a relative consensus on their role as welfare safety-nets. As such, remittances help to bring about marked improvements in the living standards of those who stay behind, and are often better at combating transitory poverty than the external financial flows associated with development assistance, because they are more closely targeted. Such windfalls alone however cannot create the right conditions for genuine development, and they are often criticised for their low impact on the structural causes of poverty.

A number of constraints help to explain why migrant remittances do not generate more economic development. The first is that the environment is generally not favourable or even hostile to investment. However difficult access to credit in the home country, the absence of structures to support and assist enterprise creation, the problems involved in managing at a distance, a lack of confidence in the intermediaries in charge of monitoring investment and a broader distrust of administrative structures in the home country, are all factors commonly cited as reasons for remittances being put to uses that are not directly productive.[19]

This situation prompted the many players concerned in some way by the issue to draw up a number of recommendations aimed at increasing the impact of remittances on development. The purpose was twofold: 1) to stimulate migrants' savings and remittances by improving the way savings could be transferred to home countries, and 2) to direct migrants' savings and remittances towards productive projects. These recommendations have given rise to several schemes which can now be said, with hindsight, to have had very mixed results, to say the least.[20] Without listing them in full, the schemes include banking products such as savings accounts specially tailored to immigrant clients,[21] or support and assistance programmes for migrant entrepreneurs. The migration and economic investment scheme set up in 2001 by the association *Programme Solidarité Eau* or "Water Solidarity Migrants" (PS-Eau) assists with the creation of enterprises doing business between France and Mali, or between France and Senegal.

At the same time, initiatives have been launched by authorities in the home countries to encourage migrants to invest there and ensure that remittances are more efficiently allocated. Some offer tax relief and/or customs-duty waivers to promote new activities that create jobs. For a specific period, the Sudanese government, for instance, offered special exchange rates for migrants as an incentive to send their remittances through official channels. This was accompanied by duty waivers of up to USD 14 000 to facilitate the import of capital goods by the holders of bank accounts credited with

19. In Mali, civil servants with the power to issue (or refuse) official permits for the building of infrastructure with the collective and association-based savings of migrants sought for a long time to misappropriate migrant remittances.

20. For a recent review of the leading schemes, see the 2003 study by the working party "*Valorisation de l'épargne des migrants*" (Developing migrant savings), bringing together FORIM, FINANSOL and CFSI, at: http://www.pseau.org/outils/biblio/ouvrages/cfsi_valarisation_economique _epargne _ migrants.pdf

21. For instance the savings plan and the savings account for returning emigrants (*Plan Épargne Retour* and *Compte Épargne Retour*) available at the *Banque de l'Habitat* in Senegal.

remittances from abroad. Ghana is another of the African countries to have introduced similar initiatives. Another scheme consists in increasing the capital leverage of remittances via national or interstate co-financing and support programmes. PRA-OSIM is one such example. Launched in partnership with the French Ministry of Foreign Affairs, together with the Catholic committee against hunger and for development (CCFD), and various OSIMs, this is an experimental programme that supports and co-finances local development projects run by OSIMs. To obtain co-financing, projects must focus on one of the following areas: health, social development, youth and sport, water resources (hydraulics, purification, the environment), education and vocational training, economic development and income-generating activities, local development, culture or support for capacity-building in civil society (including access to legal and human rights).

While many of the initiatives under way are undeniably helping to ease some of the constraints weighing upon migrants, one in particular remains and is probably behind the mixed achievements by the initiatives launched to date, namely, the need to manage development projects at a distance. The closing down of borders in several of the countries that had traditionally accepted immigrants, particularly in Europe, and the impossibility of returning there in the future, are both strong disincentives for foreign workers to make a tentative return home, and they consequently tend to settle permanently in the host country. The outcome of French policies since 1977, offering immigrants incentives to return home, bears witness to this: in spite of the financial support available, the offer has never been taken up by more than a very small minority of immigrants who were planning to return anyway, or had almost reached retirement age. Most migrants wishing to invest in their home countries are accordingly obliged to put third parties in charge of monitoring their investments. But many are reluctant to hand over the management of their projects to people in whom they place a limited amount of confidence. The evidence of rent-seeking behaviour on the part of remittance recipients proves that this attitude is to some extent warranted, as it suggests conflicting aims on the part of those who migrate and those who stay behind, with the latter tending to rely on the migrants for their livelihood.

One potential solution to the problems posed by distance would be to provide scope for migrants to initiate and finance investments at a distance via intermediaries such as microfinance institutions (MFI), which would be given direct responsibility for monitoring investments. The MFI could also take charge of finding reliable entrepreneurs in the home country and proposing potential partnerships to migrants with plans to set up businesses in their home countries.

Another way of overcoming the drawbacks of long-distance management would be to devise an immigration policy that allowed migrants to return home for as long as necessary to set up development projects, and to travel back and forth building up more assets and improving their skills.[22] By facilitating information flows and lowering start-up costs, this kind of transnational migration would be of mutual benefit to host countries, home countries and migrants alike.[23]

22. Switzerland has already taken steps to this effect (Raunet, 2001): resident migrant workers who volunteer to return to their country of origin are allowed to keep their Swiss work permits for a period of two years.

23. Researchers at the University of Sussex (United Kingdom) have recently been working on transnational migration (cf. *http://www.geog.sussex.ac.uk/transrede*).

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Table 1.1. Workers' remittances received by developing regions, 1995-2002

Billions of dollars

	1995	1996	1997	1998	1999	2000	2001	2002 (estimates)
All developing countries	48.1	52.6	62.7	59.5	64.6	64.5	72.3	80
Eastern Asia and Pacific	8.3	9.5	14.2	8.3	10.6	10.3	10.4	11
Europe and Central Asia	5.5	6.2	7.1	9.2	8.1	8.7	8.9	10
Latin America and the Caribbean	12.8	12.8	13.6	14.8	16.9	19.2	22.6	25
Middle East and North Africa	8.6	9.1	9.4	10.3	10.5	10.9	13.1	14
South Asia	10.0	12.3	14.6	13.3	15.1	13.5	14.9	16
Sub-Saharan Africa	2.7	2.7	3.8	3.6	3.5	2.0	2.4	4

Source: World Bank (2003), Chapter 7, Statistical Appendix.

Table 1.2. Annual migrant workers' remittances to specific African countries in absolute and economic terms (average 1990s)

	Total (USD million 1995 prices)	Per capita (USD, 1995 prices)	As a % of GDP	As a % of exports of goods and services	As a % of imports of goods and services
Angola	5	0.4	0.1	0.1	0.1
Benin	97	18.1	4.6	17.4	12.8
Botswana	60	41.7	1.4	2.5	2.8
Burkina Faso	101	9.9	3.8	31.7	14.2
Cameroon	18	1.4	0.2	0.8	0.9
Cape Verde	79	205.0	18.3	99.1	33.7
Chad	1	0.2	0.1	0.4	0.2
Comoros	14	23.6	5.8	31.6	14.0
Côte d'Ivoire	102	7.6	1.0	2.5	2.9
Djibouti	15	26.3	3.1	7.0	4.5
Egypt	4 177	71.4	6.6	32.3	23.6
Ethiopia	19	0.3	0.3	2.6	1.4
Ghana	17	1.0	0.3	1.1	0.8
Guinea	3	0.4	0.1	0.4	0.3
Guinea Bissau	2	1.6	0.3	5.6	2.1
Equatorial Guinea	1	2.8	0.4	0.6	0.4
Lesotho	391	204.8	44.6	201.0	40.3
Madagascar	11	0.8	0.3	1.7	1.2
Mali	107	11.0	4.3	21.7	11.7
Morocco	2 039	77.8	6.4	23.9	20.1
Mauritania	12	5.1	1.0	2.4	2.0
Mozambique	61	3.9	2.2	15.4	5.5
Namibia	14	9.3	0.5	0.9	0.7
Niger	10	1.2	0.5	2.7	1.9
Nigeria	776	7.9	2.1	6.2	7.4
Rwanda	6	1.0	0.4	5.6	1.6
Senegal	127	15.3	2.5	9.2	7.3
Seychelles	7	98.7	1.5	2.4	2.1
South Africa	139	3.6	0.1	0.4	0.5
Sudan	266	9.6	2.4	48.5	21.2
Swaziland	91	102.6	7.9	9.9	7.9
Tanzania	8	0.3	0.1	0.9	0.4
Togo	22	5.4	1.5	4.1	3.0
Tunisia	634	71.6	3.7	8.9	8.0
Zimbabwe	1	0.1	0.0	0.0	0.0

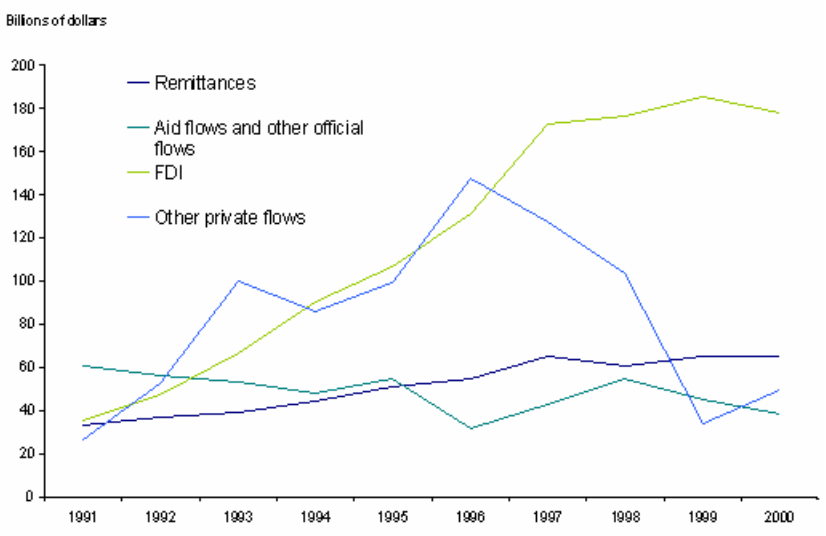
Note: Data for the following countries are not available: Algeria, Burundi, Central African Republic, Democratic Republic of Congo, Eritrea, Gabon, Gambia, Kenya, Liberia, Libya, Malawi, Mauritius, Seychelles, Sierra Leone, Somalia, Uganda and Zambia.
Source: IMF (2002a, 2002b), World Bank (2002), Table from Buch *et al*. (2002).

Table 1.3. Average remittance per migrant[1] in 1996, by country of residence

Migrant's country of residence	Share of migrants remitting (%)	Average remittance in CFAF	Standard deviation
Mali	24.6	18 343	46 332
France	86.8	774 698	626 806
Côte d'Ivoire	32.2	40 290	85 560
Senegal	31.2	13 000	31 885
Other West African countries	35.7	9 286	17 193
Gabon	54.2	115 431	213 922
Other Central African countries	38.9	66 966	124 869
Rest of the world (incl. Libya, Saudi Arabia)	100	286 072	263 569
Overall	58.6	400 464	578 748

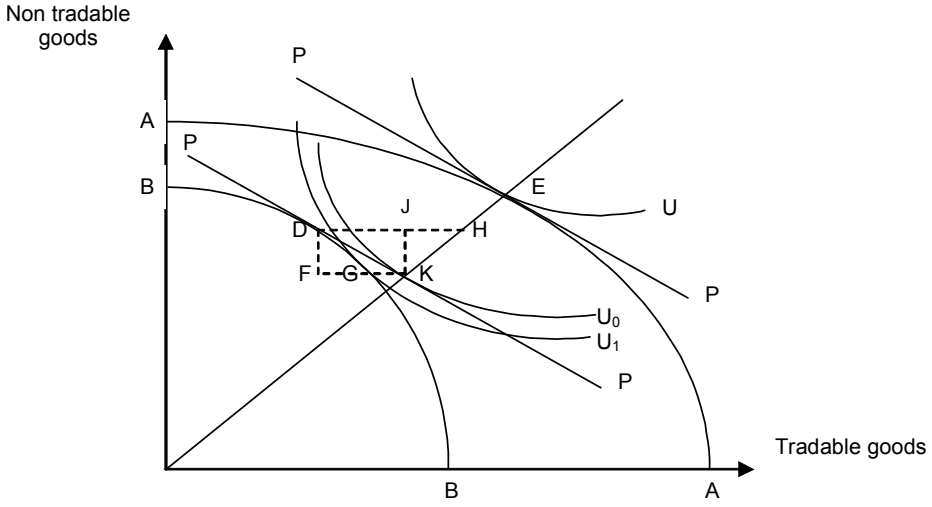
1. Men aged over 18, absent for over 6 months at the time of the survey: CFAF 1 000 = EUR 1.52.
Source : Gubert (2002).

Figure 1.1. Migrant remittances and other external financial flows, 1991-2000



Source: World Bank (2003) and International Monetary Fund (2002a).

Figure 1.2. Migration, remittances and welfare in a statistical model



Let *AA* be the production-possibilities frontier before migration occurs. Given the preferences of domestic agents, the pre-migration equilibrium is at point *E*, the point of tangency between *AA* and a social indifference curve *U*.

Assume now that the frontier moves to BB as migrants are leaving the country. At constant prices, the new production solution would be *D* while the optimal consumption bundle (*i.e.* the one that would keep utility constant for the remaining residents) would be *K*. As clearly shown by the figure, *K* is not an equilibrium since it is characterised by an excess demand for tradable goods. Consequently, the relative price of non-tradable goods decreases as well as the welfare of the remaining residents, with a new equilibrium at point *G*.

What happens now if migrants send back remittances? Suppose that *DH* units of tradable goods are remitted to the related remaining residents. At constant prices, this allows them to consume tradable and non-tradable goods in the pre-migration proportion by exchanging *DJ* units of tradable goods against *JK* units of non-tradable goods with the unrelated remaining residents. If the flow of remittances is exactly *DH*, therefore, both the structure of relative prices and the utility level of remaining residents are kept constant. A larger (resp. smaller) transfer would increase (resp. decrease) the relative price of non-tradable goods, leading to an improvement (resp. worsening) of the unrelated remaining residents (since they are net suppliers of non-tradable goods). On the whole, therefore, the net effect of migration on the welfare of remaining residents depends on the size of remittances.
Source: Djajic (1986).

CHAPTER 2.

THE REMITTANCES OF MOROCCAN EMIGRANTS AND THEIR USAGE

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Introduction

The Moroccan population living abroad is estimated at some 3 million people, that is, 10% of the population of Morocco.[1] About four-fifths of Moroccans residing abroad (MRA) live in Europe. It is a comparatively old migration, dating back to the beginning of the 20th century. Thus migration has considerably increased since the 1960s. It has been organised within the framework of bilateral labour agreements, concluded with western European countries (Belgium, France, Germany, Netherlands). However, the 1970s marked an important turning-point, with the closing of the European borders, followed by almost a complete halt of migration for work. The Moroccan immigrants in Europe have nevertheless strongly increased in numbers during the last three decades, due to family reunification and also due to irregular emigration that was directed principally towards two new countries of immigration, Italy and Spain, that became, after France, the principal receiving countries of MRA. They are also the second and third countries in terms of remittances of the MRA towards Morocco. These remittances constitute the principal receipts of the balance of payments in Morocco, before foreign tourism and investments. How did they evolve? What channels do they use and under which conditions are they carried out? This is the subject of the first part of this chapter. The second part will focus on their use, in particular in the field of investment and their subsequent effects on development.

The transfers

Morocco is classified among the countries where the remittances of migrants count, both in terms of volume and relative to the GDP (Straubhaar, 2005). Remittances are important, at the national level or at the level of the individual migrant and of the migrant's household. They have strongly increased over the last decades and constitute the principal external income of Morocco. It is for this reason that it is important to know

1.. According to the population census of September 2004.

the treatment which is reserved for them (incentives and obstacles), the channels taken in their transfers, and their perspectives.

Importance at the national level

The remittances of Moroccans residing abroad progressed rapidly during the last decades as shown in Table 2.1 and Figure 2.1.[2] They reached a record level in 2001 at nearly 37 billion dirhams, *i.e.* 9.6% of GDP, fell to 8% in 2002 and rose again to 8.3% in 2003.[3] Remittances constitute the principal receipts in the balance of payments, before foreign tourism and foreign private investments, respectively, in 2003, 34.7 billion dirhams, against 30.8 and 23.5 billion.[4] They can however experience short-term fluctuations of strong amplitude (Table 2.2 and Figure 2.2). The classification of the immigration countries by volume of remittances evolved during the last decade. If France remains logically the first remittance transmitting country – having always been the first immigration country of the Moroccans residing abroad – Italy and Spain occupy now the second and third places. It should also be noted that there is a rapid increase in remittances coming from the United Kingdom, the United States and Canada). On the other hand the old immigration countries of Moroccans (Belgium, Luxembourg, Netherlands, Germany) have moved down in the classification, although the volume of remittances from these countries is still increasing, but at a slower pace (Table 2.3).

Importance at the migrant level

At the level of the migrant also, the effort of remittances is important. Indeed, research data show that 60% of Moroccans residing abroad transfer to Morocco at least a quarter of their annual income and more than 30% transfer more than a third of their income (Hamdouch *et al*., 2000). In any case, 94% of the MRA carried out transfers of their incomes to Morocco during the five years which preceded the research (*ibid*.). The migrants who transfer more are those who have emigrated more recently, particularly to Italy and Spain; those who did not take their family with them and thus have even stronger bonds with Morocco; and those who are less educated, do not intend to become naturalised, and who plan to go back to Morocco and to invest there. The MRA in France always transfer more, contrary to those of two other old immigration countries for Moroccans, Holland and the Netherlands, whose transfers are reducing (*ibid*.). What does all this mean for the future?

Transfer channels

More than 62% of migrants transfer their funds through the Moroccan banks, compared with only 4.4% for foreign banks. The post office comes in second position with 16%. Private intermediaries are used very little (3.4%). The importance of the Moroccan banks[5] is explained by the development of their services not only in Morocco,

2. This concerns the only monetary transfers taken into account in the balance of payments. The transfers by way of private compensation and in-kind transfers, even though they are not negligeable, are not taken into consideration, in the absence of a viable estimate.

3. The calculations are based on the data of the *Office des Changes,* Rabat, and of the *Comptabilité Nationale*.

4. Office des Changes, Rabat.

5. This concerns banks whose Head Office is in Morocco, some of which are partly or totally managed from abroad. The most active in the area of transfers are entirely or in the majority Moroccan.

but also in the principal immigration countries.[6] There is probably also a factor of cultural proximity and linguistic convenience (Table 2.4).

Incentive measures versus costs and transfer times

Morocco has employed a large range of measures to encourage remittances on the part of Moroccans residing abroad, among which are:

- A fee of about 5%.[7]
- Remuneration of the current accounts of Moroccans residing abroad – this is not available in Morocco for the other clients of the banks.
- The possibility of opening accounts in the banks in Morocco in convertible dirhams, as well current accounts in dirhams, which is equivalent to a guarantee of a retransfer of the funds, and accounts in foreign currencies, which covers against the risks of depreciation of the dirham. The last measures are still in force.

However, the costs charged by the Moroccan banks to transfer the remittances of the MRA are generally regarded as too high and the time it takes for the transfer – which can exceed three weeks – is regarded as being too long.[8] The fact that the remittances continue to increase means that incentive measures, plus the links with Morocco, are stronger than the costs and the lengths of the transfers. But does this mean that it will continue thus?

Prospects

Remittances have particularly increased during the past five years, encouraged by certain events, such as the coronation of a new king in Morocco, who shows solicitude and a renewed interest for the Moroccan community living abroad; the advent of the Euro, which in particular dismantled the savings made in the old European currencies, and the devaluation of the dirham in 2001. Two other factors favoured the transfers: a strong increase in the number of Moroccans residing abroad in the new immigration countries, particularly Spain and Italy; and the quality and the remarkable resistance of the bonds of the MRA with their country of origin. However, in the absence of a significant increase in migration flows and notable changes in migration policies, in particular in Europe, in favour of immigration originating south of the Mediterranean Basin, the long-term tendency, observed in many countries of emigration, goes against the maintenance or the increase of the remittances. This is explained by the basic immigration tendencies: permanent if not final installation of the immigrants in the majority of the immigration countries; family reunification; a rise in the level of education of the immigrants; naturalisation, integration, ageing, and the succession of generations living abroad.

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6. *La Banque Populaire*, being the first to take an interest in remittances of Morrocans residing abroad, had the privilege of opening cash-counters in the Moroccan consuls abroad.

7. It was created when the French franc was valued at less than 1 dirham, and allowed the restoration of the parity between the two currencies.

8. This appeared clearly during the Seminar "*Marocains de l'Extérieur et Développement*", organised on 8 and 9 July 2004 in Rabat by the *Fondation Hassan II* for Moroccans living abroad.

Use of remittances: investment

Remittances fund the investments of the Moroccans residing abroad in the following ways:

At the macroeconomic level

At the macroeconomic level, investments such as remittances, are important. However, in contrast to the remittances, investments cannot be measured quantitatively at the global level. There are three reasons for this. First, the balance of payments records all the remittances of the Moroccans residing abroad as current transfers. Second, the trade banks installed in Morocco do not give information on the use of the remittances and the deposits of the MRA. All that is known it is that they represent more a quarter of the deposits of the trade banks at the national level, and that in certain areas of large migration, like the from Eastern Rif, they can reach 50 to 70%.[9] The third reason is that there are no data available from a representative national survey. This lacune is filled partially at the microeconomic level by the research of the *Institut National de Statistiques et d'Économie appliquée* (INSEA) (Hamdouch *et al*., 2000).

At the migrant level

The results of the above-mentioned investigations show that the number of investments by the Moroccans residing abroad exceeds the number of these migrants. Thus the average number of investments per migrant is 1.28, that is to say, 1.02 in Morocco and 0.26 in the immigration country. This is in spite of the fact that there are migrants who do not invest, either in Morocco (nearly 30%) or abroad (77%). These are more than compensated by those who make more than one investment in Morocco (more than 28% of the migrant investors), or in the immigration country (nearly 8%) (*ibid*.). These investments are three times concentrated: 1) in time: nine-tenths were carried out in the 1980s and especially the 1990s, 2) in space, 70-90% are carried out in the areas of origin and/or residence before emigration abroad, 3) on the sectoral level: real estate monopolises the lion's share with nearly 84% of the number of investments in Morocco and 63% in the immigration country (*ibid*.). However, this situation is changing (Table 2.5).

Perspectives

Two important changes have taken place in the projects of investments of Moroccans residing abroad. The first is that the proportion of migrants who consider investing is definitely lower than the proportion of those who have already made an investment, of 19% to Morocco and 40% in the immigration country. If this phenomenon is confirmed, it would cast doubt upon the sustainability of the investments. The second concerns the sectors of investment. Real estate, while remaining the principal sector of investment, has diminished more in Morocco than in the immigration country: it consists of no more than 36% of projects in Morocco against 84% previously, and respectively 54% and 63% in the immigration country (*ibid*.). This reflects the change in migrants' behaviour and the long-term, if not permanent, settlement in the immigration country, and also the fact that

9. Seventy per cent at Al Hoceima plus more than 50 % at Midar or Aknoul. These figures were given during the seminar *"Marocains de l'Extérieur et Développement"*, organised on 8 and 9 July 2004 at Rabat by the *Fondation Hassan II* for Moroccans living abroad.

the Moroccans residing abroad had already invested heavily in this sector in Morocco. The strong fall of real estate in projects of investment in Morocco is due to a growing interest in the productive sectors, in particular trade, then hotels-restaurants, agriculture, industry and the services. Almost the same hierarchy is found in the projects of investment in the immigration country, except for the agriculture, which is absent (Hamdouch *et al.,* 2000 and Table 2.6).

Conclusion

Morocco is one of the developing countries where the remittances of migrants abroad represent the main source of foreign currency (between 8 and 10% of the GDP). They have increased very much during the last decades, but with marked annual fluctuations. The use of remittances, in addition to raising of the standard of living of the households of the migrants on a level with non-migrant households, and sometimes well beyond that, finance investments, mainly in the real estate. Things however are changing in favour of investments in the productive sectors, in Morocco and in the immigration country.

This raises the crucial question, for a country like Morocco, of the sustainability of the remittances and the investments. The long-term trends depend on factors observed in other countries of old emigration (changes in migration patterns, duration, loosening of the links with the sending country, etc.). It is necessary to alleviate at least in the short run the obstacles to remittances in Morocco (high cost of transfer, long delays) and to channel them towards productive investments. The creation of Bank Al Amal – the bank of the migrants – goes in this direction. There is need to evaluate this experiment to improve its effectiveness and to develop it.[10]

10. This was discussed during the Seminar of July 2004 organised by the Fondation Hassan II for Moroccans living abroad, *op. cit*.

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Table 2.1. Remittances of Moroccans residing abroad, 1975-2003

Millions of dirhams

Year	Amounts
1975	2 160
1976	2 418
1977	2 652
1978	3 176
1979	3 697
1980	4 148
1981	5 242
1982	5 115
1983	6 515
1984	7 681
1985	9 732
1986	12 731
1987	13 268
1988	10 700
1989	11 344
1990	16 537
1991	17 328
1992	18 531
1993	18 216
1994	16 814
1995	16 820
1996	18 874
1997	18 033
1998	19 311
1999	19 002
2000	22 962
2001	36 858
2002	31 708
2003*	34 734

Source: Office des Changes, Rabat.

Table 2.2. Remittances of Moroccans residing abroad, 1975-2003

Percentage variations

Year	Variation
1975	38.70
1976	12.00
1977	9.70
1978	19.80
1979	16.40
1980	12.20
1981	26.40
1982	-2.40
1983	27.40
1984	17.90
1985	26.70
1986	30.80
1987	4.20
1988	-19.40
1989	6.00
1990	45.80
1991	4.80
1992	6.90
1993	-1.70
1994	-7.70
1995	0.00
1996	12.20
1997	-4.50
1998	7.10
1999	-1.60
2000	20.80
2001	60.50
2002	-14.00
2003	9.50

Source: Office des Changes, Rabat.

Table 2.3. Morocco: remittances by immigration country, 1999/2003

Milliards of dirhams and percentages

	1999			2003			Variation 1999-2003
	Rank	Amount	%	Rank	Amount	%	%
France	1	10.21	53.7	1	15.46	44.5	51.5
Italy	2	2.04	10.8	2	4.40	12.7	115.2
Spain	7	0.58	3.1	3	3.21	9.2	452.6
UEBL	3	1.08	5.7	4	2.07	6.0	92.8
Netherlands	4	1.07	5.6	5	2.04	5.9	91.7
United States	6	0.68	3.6	6	2.03	5.8	200.0
United Kingdom	9	0.49	2.6	7	1.67	4.8	242.9
Germany	5	0.90	5.1	8	1.19	3.4	40.5
Switzerland	11	0.34	1.8	9	0.68	2.0	97.1
Saudi Arabia	10	0.43	2.3	10	0.56	1.6	29.2
United Arab Emirates	8	0.2	2.7	11	0.53	1.5	2.5
Canada	13	0.07	0.4	12	0.15	0.4	123.9
Denmark	12	0.10	0.5	13	0.15	0.4	42.7
Other	-	0.45	2.4	-	0.61	1.8	36.9
Total	**-**	**19.00**	**100**	**-**	**31.71**	**100**	**82.8**

Source: Office des Changes, Rabat, and author's calculation.

Table 2.4. Remittances channels

Percentage of migrants

Moroccan banks	62.4
Foreign banks	4.4
Post	16.1
Private intermediary	3.4
When visiting Morocco	13.7
Total	**100**

Source: Hamdouch *et al.* (2000).

Table 2.5. Migrants investments in Morocco and in foreign countries by sectors

Percentage

Sectors	Morocco	Foreign Countries
Real estate	83.7	63.0
Manufacturing	1.3	3.7
Trade	4.9	17.4
Tourism	1.4	6.1
Other services	1.1	1.2
Agriculture	7.5	7.3
Other sectors	0.1	1.3
Total	**100**	**100**

Source: Hamdouch *et al*. (2000).

Table 2.6. Migrants' investments projects in Morocco and in foreign countries

Percentage

Sectors	Morocco	Foreign countries
Real estate	35.6	54.2
Manufacturing	7.5	4.5
Trade	27.4	25.1
Tourism	12.1	9.5
Other services	5.3	6.1
Agriculture	10.6	0.0
Other sectors	1.5	0.6
Total	**100**	**100**

Source: Hamdouch *et al.* (2000).

Figure 2.1. Morocco: remittances, 1975-2003

Millions of dirhams

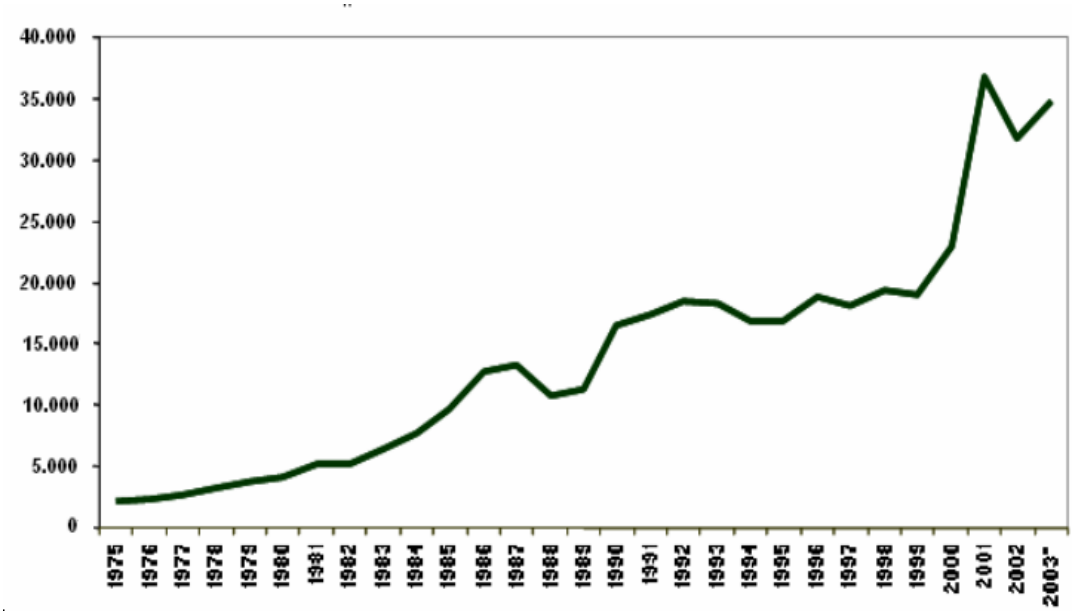
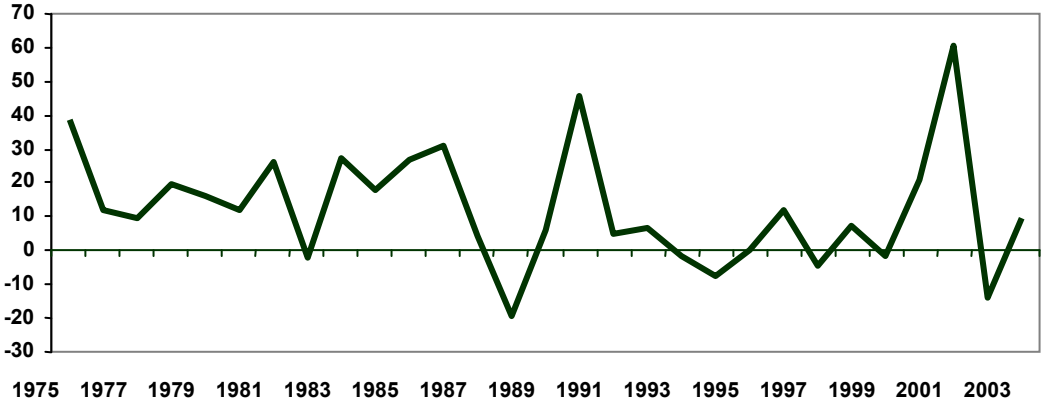


Figure 2.2. Morocco : remittances variation, 1975-2003

Percentage



CHAPTER 3.

MEXICO: INTERNATIONAL MIGRATION, REMITTANCES AND DEVELOPMENT

by

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Migration from Mexico to the United States

Migration between Mexico and the United States is a complex phenomenon, with a prolonged historical tradition since the end of the 19th century, and with structural roots on both sides of the frontier. According to Rodolfo Tuiran (2000), among the forces that have contributed to the structuring of this complex migration system, the most prominent are: the persistent demand for Mexican labour in the agricultural, industrial and service sectors of the United States; the considerable difference in salaries between the two economies; the intense rhythm of demographic growth of the Mexican working-age population; insufficient dynamics on the part of the national economy to deal with the excess of available labour, and the tradition of migration towards the United States created during the past two centuries, which presently involves large regions of the country. According to the Bi-national Mexico-United States Study (1997), it is possible to group the factors that structure the complex migration system between both countries into three categories: 1) the factors linked with the offer-expulsion of the work force and those associated with demand-attraction, 2) the numerous social factors that link the communities of origin with those of destination and which play a determining role in reducing the costs, and 3) the risks associated with migration.

Migration is a dynamic process. Therefore, the importance attributed to each of these factors tends to change over time. The catalyst in a great deal of the migration flow has remained traditionally within the demand-attraction factors. Nevertheless, the offer-expulsion factors currently play a role that is as fundamental as the availability of employment in the United States. These have become even more important due to the recurrent crisis and to the extensive restructuring that the Mexican economy has undergone since the beginning of the 1980s, which have had a negative impact on the work and on the salaries of Mexican workers, thus intensifying migration pressures. Also, the operation of complex networks of relationships between communities and organisations has contributed to support, recreate and perpetuate the migration flow, strengthening the possibilities of additional migration based on those solid transnational social networks.

During the 1970s, the flow of international migration of Mexicans to the United States increased, due to a national agricultural crisis. This period marked the beginning of the recurrent economic crisis in the country in 1976, 1982 and 1994, and increased the potential labour force interested in emigrating during a period of expansion of the American economy that was capable of absorbing it. The synchrony of the long crisis within the national agricultural sector, the negative impact of the trade liberalisation economic model which came into force in 1982, the appearance of the General Agreement on Tariffs and Trade (GATT) in 1985, the possibility of legalising 2.5 million Mexican immigrants through the Immigration Reform and Control Act (IRCA) in 1987, the negative impact of the North American Free Trade Agreement (NAFTA) between Mexico, the United States and Canada, on agriculture and small and medium-sized businesses (SME), as well as the new economic crisis of 1994-1995, in which the economic activity was reduced by 6%, all explain why international migration by Mexicans to the United States reach an unprecedented proportion and rhythm. In fact, not only is there a great increase in the flow of emigrants and family remittances, there is also a tendency towards the settlement of migrant workers along with their entire families, from the regions with a long history of migration.

International migration from Mexico has become generalised. Along with the traditional Central-West migration zone, new states such as Oaxaca, Puebla, Guerrero, Morelos, the State of Mexico and Mexico City, among others, joined this category. The fact that the great City of Mexico, at the start of the 21st century, was ranked fifth in international migration shows how the synchrony of the adverse factors mentioned above has caused the Valley of Mexico (the area where the city is located and which experienced the most economic growth and employment opportunities from the 1940s to the 1980s) to stop functioning as such. At the beginning 2005, in the Mexican people's opinion, "the North", the United States, appears to be the only option for obtaining permanent and well-paid employment, and provides social well-being. This explains why states as far away as Yucatan and Chiapas (from where there was no migration to the United States up until the 1980s), now have important migrant networks in the San Francisco Bay area and in Georgia. The international migration of Mexicans to the United States at the start of the 21st century can be categorised into three factors: a common border of more than 3 000 kilometres, a duration of more than 100 years, and a diversity of origins in Mexico and of destinations in the United States (Durand, 2003).

International migration and remittances at the start of the 21st century

According to the National Population Counsel (CONAPO, 2004), 10.2 million people were born in Mexico in 2004, which represented 10% of the total population in the country and 3.5% of the population in the United States. According to CONAPO, an average of 390 000 Mexicans a year establish permanent residency in the United States. To this contingency 490 000 temporary migrant workers were added the years 2000-2003. The generalisation of migration is demonstrated by the fact that 96.2% of the 2 443 municipalities in the country register international migration. The outstanding states in this respect are Jalisco, Michoacan, Guanajuato and Zacatecas with 42% of the migration flow, and with a growing presence of emerging states (Oaxaca, Puebla, Guerrero, State of Mexico, etc.). It is important to point out that according to CONAPO (2004), in 1990 there were 5 400 000 Mexicans in the United States, against 10 230 000 in 2004, as a result of the economic changes mentioned above.

As migration flows grow to the United States, the flow of remittances to Mexican families grows as well. In 1990, Mexico received 2.5 billion dollars; 3.5 in 1995, and 13.3 in 2003 and by November 2004, according to *Banco de Mexico*, the amount is estimated to be 15.2 billion dollars. Between 2000 and 2003 the Mexican population residing in the United Sates grew by 13.9%, while the remittances increased by 101%, according to estimates from CONAPO and *Banco de Mexico*. This growth is attributed to the increase in migration, better accounting of remittances, increased competition among businesses in the matter of money transfers, reduction in the cost of sending, and an increase in the average amount of money transferred. Nevertheless, experts such as Rodolfo Corona (2003) consider that they are overestimated or that they do not correspond to family remittances, with the growing possibility of money laundering for "exotic" exportations. There is no doubt of the macroeconomic relevance of remittances from migrants that in 2003 surpasses the entry of other resources into Mexico, such as foreign direct investments (13.3 with respect to 10.2 billion dollars) and since 2001 the income generated by tourism (*Banco de Mexico*, 2004). The remittances grew as a percentage of GDP from 1.1% in 1997 to 2.2% in 2003. They also became the second source of foreign currency after the oil exports: 11.6 and 16.9 billion dollars in 2000 and 2003 compared to 6.6 and 13.3 billion dollars, 57 and 79%, respectively.

It is clear that the economic impact of remittances is most noticeable at the state and local levels, although in different forms among the states. Three states in the region, of traditional international migration, Michoacan, Jalisco and Guanajuato, received 31.4% of the remittances by the year 2003 and the percentage of these resources with respect to the GDP depend on the level of economic development. In the states that have fallen back most such as Michoacan, Guerrero, Hidalgo and Zacatecas, remittances represent a higher proportion: 14.4%, 13.4%, 10% and 9.3%, respectively. In these states, migration, the migrant organisations and remittances have acquired a great deal of importance in their economic and social life. With respect to the importance of remittances in households, CONAPO (2004) estimates that 1.4 million Mexican households received remittances in the year 2002, that is to say, 5.7% of the total households in the country (an increase of more than double, since in 1992 only 660 000 homes received this income). The remittances represented 47% of the usual monetary income for the receiving families. For 40% of these households (560 000 families), the remittances represented their only source of income. The average yearly income through remittances in the receiving households is USD 2 590. Sixty-five per cent of the households that receive remittances are found in rural areas and 35% in urban areas. In the rural areas, one household out of ten depends on the family remittances for its subsistence. In the last few years there has been a growing urbanisation of the international migration flows towards the United States.

With respect to the use of multiple family remittances, research shows that almost 95% of them are spent in family consumption. Only between 5 and 8% of the resources are saved for small family investments (García Zamora, 2003). Collective remittances have acquired a special importance in the last few years. Through such remittances, the migrant organisations in the United States (Clubs) have financed thousands of social basic infrastructure projects in their home town communities. Such remittances have a triple value: they unite the community of origin with the community of destination, they turn the migrant organisations and their communities into spokespersons at the three levels of government and allow the realisation of projects, that without them would have never been carried out. Although the average collective remittances in the last few years have not surpassed 0.6% of family remittances (Arroyo, 2004); these have acquired great importance at the state and regional levels, such as in Zacatecas and Michoacan, where

there is a low level of economic development. Hundreds of migrants' organisations have financed more than 1 500 basic infrastructure community projects in the last 12 years. This experience has been described as the social policy of the Mexican diaspora in the United States or intermediate trans-nationalism, a result of negotiations between the trans-nationalism at a higher level with the Mexican authorities and the trans-nationalism from below, *i.e.* from the migrant organisations (García Zamora, 2004).

International migration and remittances: a subsidy for structural poverty or an instrument of support for development?

There is no doubt that international migration and family remittances have been an important factor for the functioning of the Mexican economy and society from the 1980s up to the present time. This took place in a context of a lack of positive results from the macroeconomic stabilisation policies in terms of economic growth and employment, as is demonstrated by the fact that between 1982 and 2002, the GNP per capita grew at a rate of 0.35%, while in the previous 50 years it grew at a rate of 3.1% yearly (García Zamora, 2004). This has given place to frequent overestimation by the Mexican authorities of the impact and the potential of the family remittances as an instrument for financing productive projects, and as an activator for regional development in the absence of public policy for such objectives. This view, which has also been repeated in the last few years in several publications of the InterAmerican Development Bank (IDB), in which there is talk of a "river of gold" made up of remittances to Latin America and the remittances as a "leverage for development", has generated a critical response on the part of various Mexican researchers, such as Lozano (2004). He points out that a new development paradigm has been on the rise, which sees in migration and remittances the solution to the economic and social problems of the home countries of migrants. Such a paradigm does not take into account that remittances are resources that are private in nature, and express an intimate relation between the migrants and their families. The migrants and the resources generated by them cannot be expected to bear alone what should be the responsibilities of the business community and the local and national authorities.

On the same note, Canales (2003) questions the supposed productive potential of the remittances and tries to place in its proper dimension the contribution of remittances and migrants to local and regional development. Migrants should not be seen as the post-modern heroes who bear upon their shoulders the task of promoting the development of their communities, but neither should they be seen as defenseless beings, immersed in a migration syndrome, a vicious circle creating a dependency on remittances and migration. Canales points out that those who see the 13 billion dollars of remittances received in Mexico in 2003 as a potential source financing a vigorous growth process in the migrant hometowns confuse the true economic meaning of the remittances, especially if remittances are used by the family for sumptuous projects ("monuments to nostalgia"), such as parties and other non-productive ceremonies. These, in reality, do not represent migrants' savings, but constitute a fund used for consumption and expenses. Also, the type of consumption for which remittances are used, although it may seem to be a sumptuous expense (parties, ceremonies, churches, etc.), is no different in essence from the type of consumption of the rest of Mexican homes with similar incomes. Arroyo (2004), in the Seminar on Migration Mexico-United States: Implications and Challenges for Both Countries, presented in the City of Mexico by the National Counsel for Population on 1 December 2004, presents the following conclusions on the impact of international migration and remittances in the Mexican economy:

1. Migration contributes to the macroeconomic equilibrium in the country.
2. It stimulates the economy of the communities of origin and destination.
3. In the case of the communities of origin, the main impact is on family maintenance and the financing of the education of family members.
4. The impact on the economy is concentrated in big cities within regions that have a high migration rate. The impact of remittances is felt where they are spent, not where they are received.
5. The productive potential of remittances is not very important.
6. The 3x1 programme is of little relevance for the construction of the local infrastructure.
7. The people in the communities of origin with a high migration rate are conscious of the role played by remittances in their local economies.
8. They perceive migration as an essential factor in their economy.
9. They consider migration as the only option for family development as well as a risk.
10. It is possible that the banking system may be one of the alternatives to reduce the cost of money transfers.

It has been pointed out on several occasions (García Zamora, 2002, 2003) that international migration, remittances and migrant organisations acquire a major importance in those regions characterised by low economic development, the absence of a relevant business sector and the lack of foreign direct investments. In this context, in regions such as Zacatecas, Michoacan and Oaxaca, remittances and migrant organisations can be an important instrument of support for local and regional development projects, as long as there are active public policies in place to reach such objectives. Collective remittances and migrant organisations acquire a great deal of importance in the realisation of basic infrastructure projects, in the construction of a trans-national migrant community committed to local development projects aimed at designing specific strategies with the three levels of government (national, state and municipal), for investment projects with savings and investment from successful migrants in the United States. This allows the assessment of the Federation of Zacatecan Clubs of Southern California, with more than 12 years experience of realising social projects in more than 100 communities of Mexican origin, which in 2004 will start a two-year strategic planning process, in order to advance towards productive projects with support from the Rockefeller Foundation. The author agrees with the Mexican colleagues mentioned above, that migrants cannot be asked to take total responsibility for economic development and social well-being. However, if they are interested in collaborating with that objective, adequate policies should be formulated for economic, national, regional and local development. Also, support should be given to any action that may help strengthen the communities of origin and of destination so that they may become key actors in their own development (García Zamora, 2004).

Finally, Partida (2004) considers that, based on the demographic trends in Mexico, it is to be expected that the same migration rate to the United States, similar to the last few years, close to 400 000 migrants a year, will continue. Nevertheless, the evolution of migration rates will depend on the following factors:

1. The growth rate of GDP in Mexico.
2. The ratio of average non-agricultural salaries between both countries.
3. The ratio of the unemployment rate between Mexico and the United States.
4. The total amount produced by remittances per capita as an approximation to the activation of the social networks and of the intensity of the link between the places of origin and destination.

Doris Meissner, ex-Counselor for migration to President Clinton, expressed the view last November in Zacatecas (2004) that the United States had become addicted to cheap labour (and illegal migrant labour), and that Mexico had the same attitude concerning remittances, thus generating a very complex situation between the two countries. It would be ideal to have a Bi-national Migration Agenda, but this possibility disappeared with the changes after September 11, and the focus on national security. The only current proposal is a new programme of host workers, with limited labour and economic rights, depending on the labour needs of the people that hire them. However, this is not a bi-national agreement. In this context, remittances will tend in the short term to fall, with the growth of permanent migration. Consequently the only strategic option for the future of Mexico is the re-orientation of development towards the internal market, the promotion of regional and local development, taking advantage of the contributions of all the national and bi-national participants.

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CHAPTER 4.

MIGRATION, REMITTANCES AND THEIR IMPACT ON ECONOMIC DEVELOPMENT IN TURKEY

by

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Introduction

This chapter outlines the major points discussed in the workshop organised by the OECD and Koç University on Migration, Remittances and the Economic Development of Turkey, held in Istanbul on 21 December 2004. It not only sets out the main issues of remittances in the Turkish context, but also relates them to the wider context of the migration-development nexus. It also presents the changing perceptions on the links between remittances and development in the relatively long-established history of Turkish emigration. While the issues of remittances and their impact on economic development are regaining importance on the international agenda, the Turkish case provides us with an interesting setting, for three main reasons: first, the scale and scope of remittances have been important for Turkey for the last four decades; second, Turkey had its own method of receiving remittances throughout this period; and third, there seems to be less attention being paid to remittances than in the past: initially they were considered as a vital economic input but ultimately they were viewed as one of the ordinary elements of the country's economy. Meanwhile Turkey, as a country of both some "old" and some "new" emigration, keeps its significant position in the ongoing regimes of the flows of emigrants and remittances. Therefore, the Turkish case presents a rich study area for the issues of migration, remittances and development. In fact, what remains clear is that for decades Turkey has been one of the top ten remittance recipients among the developing countries.

Background on emigration from Turkey

It is now more than forty years since the start of large-scale emigration from Turkey to other parts of the world. The growth of this movement is impressive. Starting from a few in the early 1960s, by the early 2000s, when the population of Turkey itself was almost 70 million, there were over 3 million Turkish workers and their dependants in Europe, more than 100 000 Turkish workers in Arab countries (without dependants, who

are not accepted), nearly 300 000 settlers in Australia, Canada and the United States, and nearly 50 000 workers in the commonwealth of independent states (CIS) countries.[1] Thus, at any one time during these years, some 6% of the Turkish population was living abroad. Taking into consideration that some 30-40% of the early emigrants returned permanently to Turkey, it would appear that a sizeable minority of the present Turkish population has had direct experience of emigration, and an even larger proportion has had indirect experience, through the emigration of a close relative or friend. However the potential influence of these movements on Turkey is more than a function solely of numbers; it is also a question of contacts. From the beginning, Turkish emigrants appear to have kept in touch to a particularly high degree with family and friends in the homeland – through letters, telephone calls and remittances – and many have visited Turkey from time to time on holiday, to attend weddings, or due to the sickness or death of a relative. At the very least, it seems likely that this combination of massive emigration and the maintenance of a high level of contact with those who remained behind could be an important stimulus to change in Turkey's economic and social life.

A great deal of research is carried out on the various aspects of Turkish emigration, but relatively little is known about its consequences for the country's development. In examining the question of remittances as a consequence of international migration for the country, there are three main issues: first, the real volume of remittances; second, the determinants of the flows of remittances; and third, the impact of remittances on the economy at various levels, such as individual and family, community, and national. Research findings on these questions are very limited. Some of these poor research results are due to the lack of data and good methodology, and some to theoretical shortcomings, which do not fully take into account the changing characteristics of migration processes. It should be noted that the nature of remittances very much depends on the wider context of migration, in which the consequences of international migration are experienced at three main levels: the migrants themselves, the country of origin, and the country of destination. These are the three main elements which affect the nature of international migrants' remittances. The interdependence among these three elements is also an important dimension in remittances. In the Turkish case, there are important historical and structural dimensions. For instance, over the last 40 years many changes have taken place, both in the flows of migrants from Turkey and that of remittances to Turkey. Therefore, any evaluation of remittances issues of and their relation to development should not ignore the changes which have occurred in migration regimes over the years.

Reasons for remittances

Generally speaking, there are many different factors behind the reasons why migrants remit, including economic and saving policies in the host and home countries, exchange rates and risk factors, and the availability and efficiency of transfer facilities.[2]

1. See Çduygu, A. (2004), "Demographic Mobility over Turkey: Migration Experiences and Government Responses", *Mediterranean Quarterly*, Vol. 15(4), pp. 88-99.

2. There were three main sessions at the Istanbul Workshop. The first focused on the remittance infrastructure and the new financial products, and the second considered the impact of remittances on economic development. The third session tackled the policy issues which brought together national and international scholars, experts, practitioners and civil society representatives. The main determinants of workers remittances were examined. It was argued that three main sets of variables account for the flows of remittances: those related to migrant-sending countries, to the migrant themselves, and to migrant-receiving countries. It was also emphasised that studies of remittances are often constrained by the scarcity and poor quality of data. Indeed, it is difficult to design a research project which will fully cover the main sets of the variables affecting the flows of remittances.

Specifically, two main set of variables explain the main motives behind remittances: the dynamics of family ties, which implied consumption and are related to social status, well-being and risk-sharing by the individuals involved (migrants and their relatives); and macroeconomic stability and investment prospects, which are determined by a set of factors such as inflation, growth, interest rate differentials and exchange rate. Although the consumption motive dominates in the short term, macroeconomic variables significantly affect workers' remittances in the longer term. This indicates that governments of the labour exporting countries can influence the inflow of remittances by means of appropriate macroeconomic policies. It suggests that sound exchange rate policies, and economic and political stability may have an important influence on the flows of remittances.

Remittance infrastructure and new financial products

According to the figures of the Central Bank of Turkey, over USD 75 billion have been remitted to Turkey since the early 1960s, an average annual figure of USD 1.9 billion. However, the annual flow of remittances in this period has fluctuated from year to year, but as far as the long-term trend is concerned, it has increased steadily until the late 1990s. The average annual figure of the flow of remittances in the 1970s was around USD 1.5: this rose to USD 2.3 in the 1980s and to USD 3.3 in the 1990s. In the last thirty years, overall remittances have been of a sizeable scale, but their relative contribution to the economy has been in decline. For instance, while in the 1980s, remittances accounted for over 65% of the trade deficit on average and for over 2.5% of GNP, in the 1990s, these figures were less than 40% and less than 2%, respectively. Generally speaking, the flows of remittances have not declined considerably as migration streams diminished in Turkey, but the country has received relatively less in remittances than in tourism, exports and other income sources. It is often repeated that official figures may underestimate the size of remittance flows because they fail to capture the informal transfers. The increasing level of global transactions such as frequent travel, largely contributes to these types of informal money transfers. Furthermore, the official figures may also not include some money formally sent by migrants back to Turkey. It is also claimed that remittances are generally under-reported around the world. Turkey is not an exception.

The Turkish banks are the major remittance channels which carry the deposits to Turkey (see Chapter 6, Köksal and Liebig). The Is Bankasi and Ziraat Bankasi are the two important banks who are considered to account for more than half of remittance transfers to Turkey. The original aim was mainly to attract foreign currency. Therefore, the Turkish banks offered considerably lower fees than their foreign counterparts. Although the importance of attracting foreign currency has declined, the Turkish banks now profit from large scale economies. Compared to the transaction costs cited by other studies around the world (the total cost might be above 10% of the total amount sent), the cost of transferring money to Turkey via Turkish banks is relatively low (for instance, EUR 5-6 for a transfer under EUR 5 000). In addition to the Turkish commercial banks, the Central Bank of Turkey plays a significant role in channelling workers' remittances to the country. The bank provides two specific bank account opportunities to individual migrants: 1) Foreign Currency Deposit Accounts, and 2) Super FX Accounts. With the latter offering higher interest rates than the Turkish commercial banks to these special accounts opened by the migrants themselves, the bank has aimed to channel remittances into savings and investment in Turkey. The total amount of remittance deposits in the Central Bank of Turkey reached nearly EUR14 billion in 2004. As far as the long-term

perspectives of the central bank is concerned, the very unique operation on remittances is seen as somewhat outside the principal duty of the Bank, and therefore viewed as an element which may be removed from the liabilities of the bank in the long term.

Remittances are quite difficult to measure, as they are sent in a variety of ways. While formal channels such as banks and money transfer services are used, there are also informal channels such as carrying remittances home or sending cash and in-kind goods home with returning migrants. Meanwhile, as far as the informal channels of remittances are concerned, there is anecdotal evidence that some religiously-oriented companies or networks (often entitled "Islamic" or "green" capital) are involved in transferring remittances informally to Turkey. Of course, this is only one of the informal channels used for remittances. Concerning new financial products, there are only limited possibilities, one of them being the special offers of selling some shares of Turkish Airlines to the emigrants in the context of the privatisation process of this company.

Impact of remittances on economic development

Although the flows of remittances to Turkey from the estimated over 3.5 million Turkish emigrants living abroad are continuing and presumably account for a sizeable part of the country's economic development, it is still no easy task to pinpoint the dynamic nature of the link between remittances and economic development. Certainly, among the main consequences of labour emigration for a sending country like Turkey are the beneficial impacts of incoming workers' remittances. As a developing country, Turkey has always needed external capital to support development projects, and has always faced perennial shortages of foreign funds to pay for imported goods and services, and foreign debts. From this perspective, workers' remittances greatly contribute to the country's economy. Although it is argued that the amount of emigrant remittances Turkey has been receiving is rather small in comparison with the total saving potential of these migrants, the scale of remittances attributable to labour migration to Europe is considerable, and remains an important source of foreign exchange. Workers' remittances increased from a modest USD 93 million in 1967 to a peak USD 1.4 billion in 1974 and then declined to USD 893 million in 1978. Turkey showed a more or less consistent level of annual remittance receipts of around USD 1.5-2.0 billion between 1979 and 1988. In this period, almost a quarter of Turkey's annual total import bill was financed by remittance receipts. During the late 1980s and early 1990s, the country had annual remittance receipts of about USD 3 billion, which increased to USD 3.4 billion in 1995. In the 1990s, remittances were equivalent to around one-third of the trade deficit, but were well below 3% of GNP. In short, since the 1960s, workers' remittances have greatly contributed to meeting the import bill of the country, but their relative importance with respect to GNP has been limited.

Another aspect of the workers' remittances is the type of investments made by the migrants. Money coming from abroad often finds its way into the maintenance of the family left behind or is spent as investment in equipment, real estate, a car, or possibly as part of the migrant's attempt to set himself or herself up in a trade or another kind of new enterprise. Certainly much of the incoming money has gone directly into the family or local community of a migrant, often to maintain dependants left in Turkey. In the frequent cases where migrants abroad do not return to their place of origin in Turkey, much of the remitted money is more often spent on consumables for the new home. It seems that remittances do not help to reduce imbalances between regions in the country, though it is clear that improvements are made possible by remittances. According to Koç

and Onan (2004),[3] for instance, remittances have a positive impact on household welfare, as is shown by the fact that households receiving remittances are found to be better off than non-remitting households. Although a considerable amount of the related literature argues that remittances are not mostly spent on "productive investments" that would contribute to long-term development, it may be argued that improvements in the living conditions of migrants such as access to better nutrition or allocation of more resources to education are also forms of productive investment.

It is suggested that specifically designed household surveys in various emigration regions in the country are needed to obtain information on the flows of remittances and their impact on the economy. Two well-known migration studies in Turkey in this respect are: the 1976 Bogazliyan study by Abadan-Unat *et al*. and the 1996 Turkish International Migration Survey (TIMS-96). According to the TIMS-96 findings, 12% of households received remittances and 80% of these households used remittances to improve their standard of living. These findings also confirmed that regional differences in the kind of remittances received by households seem to be substantial. Households located in less developed regions are more likely to receive remittances than households in the developed regions. Consistent with these findings, households with recent migrants have a tendency to receive more remittances in all regions, regardless of their development status.

Remittances in the form of savings have a greater potential to be channelled into economic development. When remittances are saved in financial institutions, it is thought that the probability of using them for various types of investments increases, and consequently they may have a positive impact on development. A growing number of migrants have tended to send remittances through formal channels, and more and more of them tend to save their remittances in banks, implying a process in which remittances are indirectly contributing to the development of the country to which these savings are attributable. This, however, may also be the host country. It is argued that the effects of remittances on regional development are more difficult to assess, but they are no longer simply seen as a negative factor in the development of various migrant-sending regions in the country.

Maximising the benefits: best practices and policy implications

Although various active policies and practices were in operation in the 1970s and 1980s to attract remittances and channel them to specific economic actives, they have not been successful. In the 1970s, the Turkish authorities tried to channel remittance savings into employment-generating activities in order to maximise economic growth, with three unique development programmes linked to emigration. First, in order to channel the funds to the less developed areas, starting from the early period of emigration, the Turkish authorities supported the establishment of workers' joint stock companies that would invest in the less developed regions of the country. It was believed that the investments of these companies would provide job opportunities to returning migrants and at the same time would serve as a vehicle for the economical use of their savings. This was regarded as an efficient way of industrialising the regions of origin. More than 600 workers' companies were created, with varying capital and numbers of shareholders. Although the workers' companies aim at achieving a certain social goal by developing the under-

3. Koc, I and I. Onan (2004), "International Migrants' Remittances and Welfare Status of the Left-Behind Families in Turkey", *International Migration Review*, Vol. 38(1), pp. 78-112.

developed regions in general, they cannot avoid the important, productive, economic considerations. Workers' companies have run into various problems such as project identification, financial and technical planning and management, and inadequacy of communications. Hence, their role in fostering the development of less developed regions has been limited. There are currently some 20 to 30 functioning worker's companies in Turkey.

Another aspect of the official policy of reintegrating the return migrants' savings into the local economies was to support the creation of village development co-operatives. However, because many of them sought to secure jobs for their members rather than to realise productive investments in the villages through remittances, most of the co-operatives were instead used as a vehicle to facilitate more migration. The third method for attracting the savings of the migrants was the establishment of the State Industry and Workers' Investment Bank in 1975. The bank advocated mixed enterprises organised by the state and private capital, including workers' remittances. However, this effort has not been successful either for the enterprises overall or for channelling the investment resources into the less developed regions.

In the four-decade history of Turkish emigration, the following policy objectives, measures and practices have been employed, in order to enhance the development impact of remittances: 1) stimulating transfers through formal channels via foreign currency accounts, premium interest rate accounts and remittance bonds, 2) contributing to migrants' collectives or associations via matched funding, public-private ventures and competitive bidding for development projects, 3) setting up particular banks, 4) securing future remittances via promoting continued migration, promoting transnationalism and diaspora management. Although the government policies are often viewed as one of the main factors behind the changing volume of remittances and the ways in which they are transferred, it seems that currently there is no likelihood of major initiatives to channel the flows of remittances from the government side. Indeed, that migrants' trust in long-term economic development is having a much more important impact on remittances than active governmental intervention.

Concluding remarks

Remittances to Turkey in the last three to four years have declined. This decline is continuing, partly due to the economic downturn in host countries like Germany that has led to rising unemployment among Turkish emigrants. Another reason that remittances are likely to fall is that more Turkish emigrants settle in the host countries and send less money home.

It could be useful to put the Turkish case of the remittances-development links into context by referring to some basic foundations of a sound remittances-related policy, such as recently discussed by Carling (2004):[4] 1) recognising the diversity of types of remittance, such as intra-family transfers, personal transfers, collective transfers and social security transfers; 2) acknowledging contrasting objectives: such as immediate versus future benefits; 3) considering the division of labour between actors: civil society actors in addition to governments and migrants themselves; 4) staying clear of undue interference with and attempts at social engineering of remittances; 5) paying attention to the relationships between migrants and persons who remain in the origin country; and

4. Carling, J. (2004), "Policy Options for Increasing the Benefits of Remittances", *Compas*, Working Paper No. 8, University of Oxford, Oxford.

6) appreciating the issue of credibility between the migrants, and the respective governments of sending and receiving countries. Finally, there is an apparent need for sound data and further studies on the links between migration, remittances and development.

CHAPTER 5.

MIGRATION POLICIES, REMITTANCES AND ECONOMIC DEVELOPMENT IN THE PHILIPPINES

by

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Introduction

The Philippine Overseas Employment Program (OEP) was institutionalised in 1974 with the enactment of the Philippine Labor Code. Regarded as a temporary programme or a stop-gap economic measure to address the high unemployment rate during the Marcos era, the programme eventually became an important fixture of national policy because of the recognition of the role of international labour markets in containing the problem of local unemployment. With overseas employment taking away a big percentage of the new entrants to the labour force and the billions of dollars that overseas Filipino migrant workers pump into the economy through their foreign exchange earnings, overseas employment has slowly been recognised as a development strategy of the Philippines. The decision to mainstream the programme into the development agenda of the medium-term development plan, and the increasing call for a deliberate policy to capitalise on the overseas Filipino worker as a real asset to the economy, support this emerging perspective.

Development tool

An article on the overseas Filipino workers entitled "Workers for the World" that appeared in the 4 October 2004 issue of *Newsweek* posed the provocative question: Is migration a real development strategy? Dr. Bernardo M. Villegas, a leading Filipino economist, responded that if the question had been asked twenty years ago, the answer would have been a categorical *No* because a real development strategy at that time would have been an all-out effort of government to develop the countryside and the agricultural sector, which unfortunately was not pursued. What was adopted instead, according to Villegas, was the industrialisation strategy that failed to bring about the desired economic development.

Poverty and unemployment drove millions to seek jobs abroad, with the majority coming from the bottom of the social strata. From a modest level of 36 035 workers in 1975, contract migration of Filipinos rose to 933 588 in 2004, with foreign remittances

increasing annually in direct proportion to the leap in the number of workers who left on contractual employment overseas every year. The *Bangko Sentral ng Pilipinas* (BSP) figures showed that the cash transfers in 2004 breached the USD8 billion mark, an 11.3% increase from 2003. With a steady rise in the inflow of dollar earnings, the Philippine economy would be deflated if the outflow of migrant workers were stopped. Under the present administration, government continues to provide overseas employment as an option, setting the goal of facilitating 1 million jobs a year. The jobs are designed to provide economic relief to those who are unemployed, particularly those who come from the poverty-stricken zones of the country, to help contribute to development in the rural areas.

However, there are contrasting views on using remittances as a tool to promote growth and development. In some quarters, remittances are considered as an impediment to development because they drive the recipients to excessive domestic consumption, rather than savings and investment, and because of the "dependency syndrome" which limits the productivity of the beneficiaries. On the other hand, there are those who believe in the huge potential of remittances in helping the recipient country to reach its development goals. The BSP, for example, cites the importance of remittances in providing the economy foreign exchange resources and contributing to a stronger balance of payments. The bank added that remittances held as deposits in the banking system have a two to three times multiplier effect on the economy, and these funds can be channelled to investments, including small businesses.

Optimising the gains of migration

The Philippine Republic Act No. 8042, also known as the Migrant Workers and Overseas Filipinos Act of 1995, declares, among other things, that "The State shall, at all times, uphold the dignity of its citizens whether in the country or overseas, in general, and Filipino migrant workers, in particular". Following this declaration, the State acts to ensure that the benefits and gains of overseas migration are optimised, and the risks and social costs are minimised. This policy is concretised through programmes that are devoted mainly to migrant workers and carried out in all phases of the migration process – pre-employment, on-site employment and post-employment – in partnership with the private sector, non-governmental organisations, church groups, educational institutions, media and other programme stakeholders.

Migrant workers, the state believes, should be empowered through education and counselling programmes so that they can make well-informed and wise decisions before they embark on an overseas stint. Through pre-employment and pre-departure orientation courses, the prospective migrant worker learns the realities of working in a foreign land that is miles away from home, and the benefits and risks of migration. He/she undergoes value re-orientation, and learns his/her rights and duties and obligations as an overseas Filipino worker. He/she is taught how to cope with distressful situations and is advised to attend training sessions on HIV/AIDS for health information. Resource speakers provide counselling sessions on reintegration; they counsel workers and families on entrepreneurship, and encourage saving and investment of part of their earnings and the use of formal channels in the transfer of cash earnings, with the advice to remit regularly at least 70% of their monthly wages as part of their obligation to the family they leave behind.

Workers remain within the reach of government protection through the various Philippine missions abroad and overseas labour offices. Seasoned labour attachés, social

workers and doctors help ensure that the migrants are not exploited through onerous employment contracts and that their basic human rights not abused by the employers. The overseas officers regularly monitor the migrants' work conditions, and provide assistance and relief in case of welfare and legal problems. In countries where there are huge concentrations of overseas Filipino workers, human resource development centres are established as venues for training courses on entrepreneurship, skills upgrading classes, and for savings mobilisation sessions that are conducted with volunteer migrant associations. The migrants are once again reminded of the need to prepare for eventual retirement at the end of their contractual employment.

Cognisant of the need to provide assistance to returning workers, the state lists a line-up of livelihood programmes, investment opportunities and financial literacy training to improve understanding of banking and other financial information. Loan programmes are made available to those who are interested to start small businesses, and a subsidy programme for cost of machines and tools, such as tractors, farming devices, automotive equipment and carpentry tools, is offered for livelihood projects.

The wide range of government intervention can be seen throughout the entire migration chain to optimise the positive impact of migration. But government merely lays the programmes before the intended beneficiaries; the ultimate decision to avail of the services lies with the migrant and the family whose right to use the hard-earned earnings and remittances as they please is recognised fully by the state.

Impact of remittances

In a country where as much as 10% of the population are overseas workers, the desire to leave for better opportunities in labour-short economies is primarily economics-driven. A recent survey conducted on the earnings of Filipino migrant workers revealed that every overseas Filipino worker had three great wishes or dreams: 1) to have enough food on the table, 2) to send his/her children to school, and 3) to build a house for the family: in that order of priority. Unfortunately, setting up a business and mounting livelihood projects are not among their top priorities, perhaps because migrant workers are not exactly entrepreneurial by nature and because they perceive access to financing as difficult. The same study stated that realisation of the three aspirations gave the migrant the full reward for his/her hard toil on foreign shores.

Invariably, the question is asked: Has migration improved the quality of life of the migrant and his/her family? Economic theory postulates that overseas employment of nationals poses benefits to the sending country, and subscribing to this theory, Philippine economist Gonzalo Jurado cited the benefits to include the increase in the household income of the migrant worker, the multiplier effect such an increase has on the community, relief from unemployment and improvements in the country's balance of payments. Looking at the accounts of how remittances have improved the lives of Filipino migrant workers, the answer is positive. With an average monthly income that is about 45% higher than the minimum monthly wage, overseas Filipino workers and families are better off when compared with households whose incomes are derived from domestic employment. As dollar earners, overseas workers have been observed to enjoy the high regard of the community that subconsciously elevates them to a higher level of the social strata. With their foreign earnings, they are able to send their children to the best colleges and universities in the country, and most importantly, they have built homes for their families. The modest houses that have mushroomed in the countryside, furnished

with the core household appliances, are evidence of the comfortable life that many migrant workers lead.

But beyond the impact of foreign remittances on the migrant workers, how has migration contributed to economic development? Economists were of the opinion that government would have been forced to declare a recession during the Asian financial crisis had it not been for the remittances. Foreign cash transfers have propped up domestic consumption, especially during times when export markets were weak. The multiplier effect of this consumption in the business sector is quite overwhelming. Consider, for instance, the multiplier effect of the building of hundreds of migrants' houses on the construction industry and on the peripheral businesses. Business people have acknowledged the contribution of remittances to the boom in small industries, and to the sustained growth in the retail and wholesale trade and services sector. Remittances have likewise contributed to the growth in the telecommunications sector that continues to attract and marvel consumers with the latest gadgets in mobile communication. Speculative data show that personal spending in transportation and in other industries like food, education, garments, shoes, insurance, pre-need, transportation, communication, real estate, tourism, cinema, etc, has given major impetus and boosted to economic development.

An assessment of the impact of migration, however, does not finish without addressing the third dimension: Have remittances alleviated poverty? Has migration improved the life of the Filipino people? A recent study by the Asian Development Bank (ADB) in Manila on the remittances of Filipino migrants pointed out that migration and remittances, particularly, have failed to help alleviate poverty and to improve the life of Filipinos, and that only a small segment of society, namely the migrants and their families, have benefited from the overseas employment programme. The study suggested that the remittances have only succeeded in promoting excessive spending for non-essentials and not in productive endeavours. But the author joins the rest of people who maintain that the multiplier effects of consumption behaviour are in themselves indicative measures of the positive impact of migration, because the increase in the demand for goods and services that they generate, and the production of indirect investment such as on health, education and housing have a major impact on human development.

But should remittances be regarded as the main engine for economic development? What if there were no migrant workers and therefore, no billions of dollar remittances to speak of? Would development come to a standstill? Is there any other role for migration in development other than as a source of remittances?

PART II.

REMITTANCES AND FINANCIAL INFRASTRUCTURE: CHALLENGES AND PROSPECTS

CHAPTER 6.

PRINCIPAL CHANNELS AND COSTS OF REMITTANCES: THE CASE OF TURKEY

by

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Introduction

The first major labour migration flows of Turks to Germany followed the bilateral agreement between the Federal Republic of Germany and Turkey on 30 October 1961.[1] For Germany, a main goal of this agreement was to alleviate labour shortages in the booming post-war industry through labour immigration. In Turkey, per capita GDP at that time was very low, there was mass unemployment and wage levels were extremely low compared to Germany. From the 1970s onwards, Turkish emigration was also directed towards other OECD European countries (*e.g* Austria, Belgium France, Netherlands) and the Middle East (*e.g.* Kuwait, Saudi Arabia), but Germany is still by far the most important host country for Turkish migrants (about 2 million Turks, or just under two-thirds of the whole Turkish community abroad live in Germany) (Annex 6.1). According to a survey among the foreign population in Germany, about 27% of the Turkish households formally remitted money to Turkey in 2001 (Table 6.1).[2]

Since the late 1960s, remittances have been an important source of foreign currency for Turkey and regularly amounted to more than 2% of the GNP (Annex 6.2). In

1. The agreement established, in particular, co-operation between the two countries' national employment agencies, payment of all relocation costs of Turkish workers and the possibility of intervention by Turkey, if considered necessary, to protect the rights and benefits of Turkish migrants. For more detailed information on bilateral agreements, see OECD (2004), *Migration for Employment: Bilateral Agreements at a Crossroads*.

2. These data are from "Ausländer in Deutschland 2001", a representative survey of 400 individuals above the age of 15 from each of the five major foreign nationalities (Turks, foreigners with a nationality of one of the successor states of the former Yugoslavia, Italians, Spaniards and Greeks).

particular, remittances corresponded to a very high percentage of export revenues, especially from 1972 to 1975 and in the early 1980s. The percentage declined in the 1990s, but still averages close to 17%. Remittances have thus financed an important part of Turkey's current account deficit. Estimates are also produced by the banking systems of the countries from which the remittances originate. As Annex 6.3 demonstrates with respect to Germany, these estimates do not necessarily coincide with the data shown in Turkey's current balance of payments, although both in Germany and Turkey (until 2003), they include money carried by migrants with them when they visit their country of origin. Such informal channels still account for about half of the overall remittance flows (see the estimates in Tables 6.2 and 6.3). Though these estimates should not be taken at face value, they provide an indication of the magnitudes involved.[3]

Little is known about the destination regions of the remittances. Information provided by Türkiye □Bankası (*cf. infra*) shows a substantial concentration of the flows in the large cities (Annex 6.4). This concentration is already notable with respect to the number of transactions, but particularly pronounced with respect to the amounts, since transactions to rural areas involve much smaller amounts. In total, only a small part of the total remittance amount flows to the rural areas.

This chapter attempts to identify the principal formal channels that are used by Turkish migrants in Germany to transfer their savings to Turkey. The emphasis will be on the procedures for transferring remittances via banks or other financial institutions and the cost of these transactions. The analysis of the channels used and the costs of the transfers is based on interviews conducted by the authors with the principal actors in Turkey and in Germany.

The role of the banking and financial system in the remittance process

Turkish commercial banks

Turkish banks are the most important channel for the transmission of remittances. According to some surveys, the overwhelming majority of migrants use Turkish banks, and the two most important banks in this respect are the Türkiye □Bankası and the TC Ziraat Bankası. These two banks are estimated to account for more than half of all remittance transactions from Germany to Turkey. The remittance services of most Turkish banks established in Germany are fairly similar.

Founded in 1924, Türkiye □Bankası A.S.[4] was the first Turkish bank to open a foreign representative office (in Hamburg in 1933, with 35 employees). This office was closed during the Second World War and it was only in 1977 that Isbank returned to Germany with the prime purpose of transferring migrants' remittances to Turkey. At that time, there was still strict control of capital movements in Turkey. The reason for establishing offices abroad (which subsequently became branches), was to provide the country with foreign currency. The increasing use by Turkish immigrants of banking services in Germany motivated the creation of Isbank GmbH in 1992, with the principal aim of carrying out a broader range of banking operations in Europe.

3. As is generally the case in such surveys, they tend to underestimate total flows.

4. The capital structure of Türkiye □Bankası is as follows: the majority of the capital is composed of staff pension funds; another source of financing is the political party founded by Atatürk, Cumhuriyet Halk Partisi (CHP), which donates the profits to the Turkish Historical Society and the Turkish Language Academy, and is now allowed to sell its shares. The state holding of some 20% was recently fully privatised.

Isbank GmbH is 100% controlled by Turkish capital. The general management is based in Frankfurt and the bank is governed by German law. It has twelve branches in major German cities, two in the Netherlands, one in France and another in Switzerland. There is also a branch of Türkiye Bankası in London, five branches in Cyprus and one in Bahrain off-shore.

In some of the countries mentioned above, agreements have been signed with the Post Office to facilitate transfers of money to Turkey from all regions where there are significant Turkish communities. Transfers are also facilitated by the large banking network of Türkiye Bankası (135 correspondent banks in Germany). In addition, Isbank GmbH provides a range of traditional banking products and services to both private and professional clients, and businesses established in Turkey or in Europe. It plays a considerable role in international banking operations with respect to Turkey, which includes the possibility of effecting transactions in real time, on line, with the 848 domestic branches of Türkiye Bankası.

The second major Turkish bank with respect to remittances is T.C. Ziraat Bankası A.S., a public bank. Founded in 1863 in Turkey, it has the largest network in the country, with over 1 100 branches and sub-branches.

In 1964, T.C. Ziraat Bankası A.S. started its banking activities in Germany with a representative office in Frankfurt, in order to achieve better results in the field of international banking by using existing domestic experience. Over time, the number of offices increased to eight. Due to the accelerating trade relations between Turkey and Germany, and the increase in the Turkish population in Germany, the necessity for a fully licensed branch equipped with all the financial tools in private and corporate banking emerged. Therefore, the Frankfurt main branch was established in 1988. By the end of 1999, all of the representative offices had been turned into sub-branches.

In 2001, T.C. Ziraat Bankası A.S. transformed its Frankfurt Main Branch and its eight sub-branches (Berlin, Cologne, Duisburg, Frankfurt, Hamburg, Hanover, Munich and Stuttgart) into a subsidiary entitled Ziraat Bank International A.G.

In the same year, in order to benefit from the synergy effects arising from the merger of two financial units working in similar fields, this new bank merged with Deutsche Türkische Bank, whose capital was also wholly owned by T.C. Ziraat Bankası A.S.[5]

German commercial banks

Most of the wages and bonuses of expatriate Turks living and working in Germany are paid into German savings banks (Sparkassen), co-operative banks (Genossenschafts- und Raiffeisenbanken) or into private banks. The savings banks, which host about 50 million accounts in Germany, have a special status in German administrative law and each of the agencies is independent in its collaboration with Turkish banks. The situation is very similar with respect to the co-operative banks, which host about 30 million accounts.

5. With regard to the international structure of T.C. Ziraat Bankası A.S., a distinction should be made today between: i) its four subsidiaries: Turkish Ziraat Bank Bosnia D.D., Ziraat Bank International A.G., Ziraat Bank Moscow CJSC, Kazakhstan Ziraat International Bank; ii) its four joint-venture banks: Azer Turk Bank, Turkmen Turkish Commercial Bank, Uzbekistan Turkish Bank, Banque Du Bosphore; iii) its five branches in: New York City, Sofia, London, Skopje, Tbilisi; iv) its representative office in Rotterdam.

In general, German banks do not make any distinction based on their clients' nationality. It appears however that they are not very much involved in the remittances of Turkish expatriates to their country of origin. The main reason is because the commissions charged by the Turkish banks established in Germany for these transfers are very low compared with those charged by German banks *(cf. infra)*.

In addition to the savings and co-operative banks, there is only one bank which has a strong local retail banking branch network, the Postbank. Despite its strong local presence and worldwide connections, apparently far less Turkish migrants have accounts there, compared to the savings and co-operative banks.

Other financial institutions: the case of Western Union

Created in 1851 in the United States, Western Union was one of the first firms in the area of cable services. It started effecting transfers of money in 1871 and is nowadays regarded as having the largest worldwide network in this area. Western Union covers some 195 countries and territories, and has about 200 000 local agencies. In France and Germany for example these agencies are mainly situated in post offices, while in Turkey they have been located in commercial banks.[6] In 2004, however, Western Union signed a strategic relationship agreement with the Turkish Post Office to enhance its presence on the Turkish market.

According to the results of the interviews carried out by the authors, Western Union has not been a major player with respect to remittances flows from Germany to Turkey. Within Western Union, Turkey ranks 25th in the list of countries by amount of transfers executed from Germany, despite the fact that Turks are the largest migrant group in that country.[7] Recently, in order to increase its market share, Western Union introduced a number of measures to reduce the commission rates charged on transfers (*cf. infra*).

Western Union is currently collaborating with four partners in Germany: American Express, Reisebank, the Postbank and a few local savings banks.

The respective roles of the German and Turkish governments in the remittance process

German intervention in transferring the money of expatriates occurs only on an institutional basis, primarily to combat money laundering and for the purposes of the national accounts. In this regard, German money-laundering law requires that the exact identity of each individual wishing to transfer more than EUR 15 000 in cash should be known. At the same time, the German Central Bank (Deutsche Bundesbank) requires that commercial banks report all transactions over EUR 12 500.

It should be noted that up to the mid-1990s, Turkish migrants could remit cash directly to a collective account (*cf. infra*) via any bank in Germany without having an account there. This is no longer possible due to the German legislation which obliges the individual to have an account with the bank from which the money is transferred. This measure was introduced to combat money laundering.

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6. These are Denizbank, Dı bank, Finansbank, MNG Bank, Oyak Bank and TC Ziraat Bankası.

7. This stands in stark contrast to the remittances towards Ukraine, Kazakhstan and Russia, where Western Union is a very important channel.

As regards Turkey, the current regulations on remittances are governed by a measure introduced in 1989 (Decision No. 32 on "protection of the value of the Turkish lira").[8]

Turkey plays an active role in the area of remittances and the financial returns on migrants' savings. The Central Bank of the Republic of Turkey is the only bank of this type which also performs certain functions devolved to commercial banks in addition to its institutional functions. In this regard, it offers two types of deposit account *(cf. infra),* intended solely for Turkish residents abroad. It has been the aim of these measures to increase the volume of receipts of foreign currency in Turkey.

The modalities of money transfers and their remuneration by the banks

In this section, the modalities of transfers by banks and other financial institutions are examined, followed by an analysis of the various financial products or services offered by the Central Bank of Turkey. Lastly, a list is drawn up of the new banking and financial products offered to migrants by banks and financial institutions to attract a larger client base.

Turkish commercial banks

Among the Turkish banks present in Europe, three main transfer modalities can be distinguished:

The "passing trade"/"on line system"

The remitter passes the money to one of the local branches of the Turkish bank abroad. Neither the sender nor the recipient needs to have an account at the respective bank. The cash remittance takes place simply on presentation of an identity document valid in the country of residence and an identity document valid in Turkey on reception. The money is transferred to Turkey on the same day. Isbank even has an on line system, thanks to which the money is almost immediately available in one of the national branches in Turkey. This service is thus very similar to that offered by Western Union, but only functions if the sender or the recipient is resident in Turkey. Its principal advantage, however, is the low costs involved, compared to the Western Union's rates.

As far as fees are concerned, while smaller banks still do not charge any commission to the sender, these fees, where existing, have been traditionally quite low. For example, Türkiye □Bankası did not charge commission on transfers to Turkey during the first years of its presence in Germany. The first charges were introduced only in 1992 (DM 1, *i.e.* about EUR 1 per transaction). Currently, the fees charged to the sender at Isbank are as follows:

8. Any incoming or outgoing funds transfer is governed in Turkey by Decision No. 89/14391 of the Prime Minister, published in the Official Journal of 11/8/1989 under the Turgut Özal government. This measure on the "protection of the value of the Turkish lira" determines in particular the institutions accredited to play a role and the procedures to be followed with respect to transactions in currency, minerals, precious stones and articles, imports and exports, and capital movements. Paragraph 6, which deals with currency transactions, authorises the Central Bank of the Republic of Turkey to determine convertible currencies, and defines its powers and those of banks, private financial institutions, the Post office, and dealers in precious minerals. Each of these institutions pays its stock of foreign currency to the Central Bank in accordance with the arrangements and in the proportions defined by the Office of the Prime Minister. Reasons of national interest have priority.

- EUR 5.50 for transfers under EUR 5 000.
- EUR 8 for transfers between EUR 5 001 and 9 999.
- 1‰ of the amount sent (with a minimum of EUR 13) for transfers above EUR 10 000.

The fees charged by Ziraat are very similar: EUR 6 for transfers up to EUR 5 000; and 1.5‰ for transfers above EUR 5 000. These fees have been stable in recent years.

Transfers from collective accounts: Naturally, the branch network of the Turkish banks in Germany does not cover all communities with resident migrant Turks. Thus, to allow an individual to transfer remittances to Turkey without having to pass directly to one of the branch offices, the Turkish banks have installed collective accounts. The operating procedure for these accounts is that individuals deposit at their German bank (*e.g.* a local savings bank) the money that they wish to transfer, by filling out a regular "inland" transaction form. In some areas, the major Turkish banks distribute (*e.g.* at the mosques) pre-filled forms where the number of the collective account at the Turkish bank is already shown by default as the recipient. In any case, in addition to indicating the collective account, the sender has to specify the contact information of the recipient in Turkey in the line reserved for the purpose of the transaction. The German bank then passes the money to the collective account (compounded of transfers made via all German banks following the same process) of the Turkish bank in Germany. The money is finally sent to Turkey by the respective Turkish bank, which directly deducts its fees from the amount transferred. The time required for this procedure varies from two to four days, according to the sending city in Germany and the receiving city in Turkey. As regards the amount of commissions, intra-Germany transfers are usually made without charges or at low charges, and the Turkish banks charge the same fees as for on line transfers *(cf. supra)*.

Transfers from one account to another using the Society for Worldwide Interbank Financial Telecommunication (SWIFT) process

This channel is used for transactions where the receiving bank in Turkey differs from the sending institution in Germany. Because of the involvement of SWIFT as an additional intermediary in the remittance process, this modality is more time-consuming and costly.

A SWIFT transaction via Turkish banks takes at least two days. It costs a minimum of EUR 23 for individuals as well as for professionals (1.5‰ of the amount sent, with a minimum of EUR 13, added to the EUR 10 charged for the SWIFT transfers).

Consequently, this modality remains of relatively minor importance, given the overwhelming cost advantage of the first two modalities. However, since the SWIFT transaction is the main channel used by the German banks, it will be explained in more detail below.

Two further channels – Telex and postal transfers – were used more frequently in the past, but are rarely used today, since they are both slower and more expensive than the channels presented above.

In the near future, the Turkish banks in Germany plan to move to an "on line banking" system to attract young, mainly third-generation immigrants. While this will quicken the process and lead to cost-savings, a reduction in fees is not envisaged despite this technological advance.

Concerning the potential costs to be borne by the recipient, it should be noted that if the money is withdrawn in Turkish lira or if the withdrawal in a convertible currency is made more than 15 days following the remittance, Türkiye Bankası does not take any commission. On the other hand, if the money is withdrawn in foreign currency in less than 15 days, the bank withholds 0.5% of the amount remitted, with a minimum commission of 20 New Turkish liras (approximately EUR 10).[9] While at first sight, banks like Isbank GmbH appear not to overly profit from remittances, the withholding of 0.5% demanded by Türkiye Bankası in the case of immediate disbursement reflects the importance of foreign currency reserves to commercial banks in Turkey. At times of high interest rates and consecutive devaluations of the Turkish lira, the opportunity cost of not immediately withdrawing or re-investing this sum was also substantial. In this case, a large part of the transaction cost was borne by the recipient, even though this may not have been perceived as a direct out-of-pocket cost.

The fees charged by the major Turkish banks appear to have been both fairly similar and quite stable in recent years, despite technological advances. No further reductions are envisaged. There are three principal reasons for this surprising stability. First, the market appears to have reached a certain competitive equilibrium. Second, along with savings in transaction costs due to further automation of the process, interest rates in Turkey have fallen and the need to attract foreign currency has diminished. This resulted in lower fees for the recipient and diminished the attractiveness of remittances for some of the smaller banks. In fact, these banks, which did not charge fees in the past, are now withdrawing from the market. Last but not least, given the relatively low current fee level, clients appear to be less concerned with the actual fee than with the reliability of production and the respective situation of the German and Turkish economies. With respect to the latter, it should be noted that all banks reported a significant fall in remittances in the last two to three years, due to the worsening of economic conditions in Germany.

German commercial banks

In the case of the German banks (savings, co-operative and private banks), the transfer is generally conducted by the use of the SWIFT formats and network in the following manner:

- The remitter obtains the so-called Z1 form which he/she has to fill out. As important information is often lacking, there is a need to consult him/her.
- The form has to be filed electronically. The consultation and subsequent filing together may take up to twenty minutes and account for the major part of the fees cost. Only a few banks have automated this process and manual adjustments of faulty data are still often necessary.
- If the bank does not have a Turkish correspondent bank, which is the case for almost all savings and co-operative banks, an order is forwarded to a central institution (*e.g.* a Landesbank such as WestLB or BayernLB, or a co-operative central bank such as DZ Bank or WGZ Bank). An order is then passed on to the Landesbank, the umbrella organisation at the Land level.
- The order is forwarded to the Turkish partner bank, cleared and settled. If the remitted currency is not the euro, a foreign exchange contract has to be placed in addition.

9. Again, the modalities are broadly similar among the major Turkish banks.

- A SWIFT transfer is made.
- Further processing may take place in Turkey, depending on the partner bank and the ultimate recipient.

The SWIFT transaction via German banks takes about five days, due to the fact that these banks always have to pass by correspondent banks in Turkey. Costs differ from one bank to another. This is partly due to the administrative independence of each individual savings or co-operative bank. On average, a commission of EUR 15 is charged for a transfer of EUR 1 000. For example, in the case of the *Stadtsparkasse Köln* (Cologne savings bank), commissions range from EUR 11 to 130, depending on the amount and possible special instructions given by the payer. Only several cents are direct costs payable for the banks' use of the SWIFT service. The largest part of the cost is due to the fact that each SWIFT transaction represents a separate order. In addition to the German banks' commissions may be added other costs, depending on the correspondent bank in Turkey.

A second channel is offered by the Postbank. In 1998, Turkey joined the Eurogiro network, a collaboration network of postal banks around the world aimed at facilitating money transfers.[10] In this way, people may pass a money order to Turkey through any of the post offices within the network. The costs involved are uniform across the entire network and amount to EUR 15 for the first EUR 250 and EUR 5 for each additional EUR 250. No fees are charged to the recipient. The sum is either transferred to a postal account or directly delivered in cash or by cheque via the postal service (which takes about six days). In the past, only cash orders to Turkey were possible, since the Turkish Post only started to offer financial services in May 2004. Despite relatively low fees, the Eurogiro has never been of major importance with respect to Turkey, and has not even reached the importance of the Western Union service offered by the Postbank. Interestingly, the number of Eurogiro cash transfers towards Turkey is considerably less than those towards for example Italy or Spain, where the same service is offered at the same charge. In addition to the higher costs *vis-à-vis* the Turkish banks, this fact is attributed to two main obstacles: the first is the relative slowness of the process, the second simply a lack of adequate marketing.

The German banks also act as intermediaries for the collective accounts. In some cases, the collective forms are not properly filled out by the migrants, which prevents the transmission of the funds to the recipient in Turkey. In these cases, special investigations have to be carried out which are both time-consuming and costly.

The co-operative banks, in collaboration with their Turkish partner bank (Türkiye Halk Bankası), are planning to offer a collective service in the near future. During each business day, all Turkey-related transactions of the co-operative banks are grouped together and subsequently transferred in a single transaction to the Turkish correspondent. In the initial stages, only account-to-account transactions are envisaged. In order to avoid errors due to faulty data, the establishment of a call-centre based in Turkey is also being discussed.

10. Prior to that date, orders were sent in paper format. This was a large-volume business until the 1970s, when the Turkish banks offered their remittance services on a large scale.

Procedure and the cost of transfers via the Western Union

To make a remittance via the Western Union, it is necessary to go to an accredited local agency and fill out the relevant form by presenting a valid identity document. After depositing the money and paying the related commission, an identification number, the money transfer control number (MTCN) is given to the person making the transfer. The same code is used by the recipient of the transfer to collect the money, who also presents a valid identity document. Remittances can be made only in euros or dollars and the transfer takes place within a few minutes.

The German Postbank has been collaborating with Western Union since 1991. At that time, it was considered that the minute-cash transfer service was a good complement to the regular money transfer system, which took much longer. The cost is 5% of the amount of the sum transferred, with a minimum of EUR 26 and a maximum of EUR 260.[11] Since it is deemed that the services of the Postbank and Western Union are not competitive with the Turkish banks, they have been considering special promotion strategies.

Presumably, the largest amount of the Western Union's transactions passes via Reisebank (traveller's bank and member of the co-operative banking group), which is present in the airports and the major train stations in Germany. Their collaboration with the Western Union dates from the early 1990s. Despite the fact that the Turks are the main group of foreigners in Germany, the Reisebank has never had a significant amount of Turkey-related transactions. Therefore, the Reisebank introduced - in collaboration with Western Union - a special promotion for Turkey in May 2004, *i.e.* a fee of EUR 6 for transactions up to EUR 500, and 2% of the transaction sum above that amount. This ended in December 2004. There is no further special promotion with respect to Turkey envisaged in the near future. Similar to the Reisebank, the Western Union's collaboration partner American Express has participated in a special promotion which also terminated at the end of 2004.

Table 6.4 summarises the channels outlined above.

Modalities of transfers via the Central Bank of Turkey

Two services are offered by the Central Bank of Turkey with respect to migrants' remittances and management of savings:

Foreign currency deposit accounts with credit letter

The credit letter is a bank document which allows payment of the sum stated therein to the individual account-holder. The payment is effected by the central bank, or one of its branches, or by a correspondent bank abroad. This practice dates back to 1976 when Turkey was desperately short of foreign currency and tried to attract foreign exchange into the accounts of the central bank. This objective lost its importance towards the end of the 1980s with the liberalisation of capital movements.

Super Foreign Exchange (FX) accounts

This is a second type of deposit account offered by the Central Bank of Turkey and was introduced in 1994. It offers more attractive interest rates (*cf. infra*) than the above-mentioned foreign currency deposit accounts with a credit letter.

11. The fees of the local savings banks which collaborate with Western Union are similar.

Concerning Foreign Currency Deposit Accounts with a Credit Letter, one or two-year term deposit accounts may be opened with a minimum deposit of EUR 1 000, USD 1 000, GBP 1 000 or CHF 2 000. In the case of Super FX Accounts, one, two or three-year term deposit accounts may be opened with a minimum deposit of EUR 5 000 or USD 5 000.

When another foreign currency that is traded by the central bank is remitted, accounts can also be opened in legal tender by converting it into one of the above-mentioned currencies.

To use these modalities, persons must be Turkish expatriates, aged over 18 years, resident abroad and in possession of a work or residence permit. Persons authorised to work abroad for a long term by the public agencies, and those employed at representative offices and bureaus of public and private sector organisations abroad, are also entitled to open these accounts.

Joint accounts may be opened solely for husbands and wives under the "and/or" clause.[12] Furthermore, citizens with a Credit Letter and/or Super FX Accounts may continue their accounts under the prevailing legislation also after their final return to Turkey.

Turkish citizens in possession of a valid passport may open Foreign Currency Deposit Accounts with Credit Letter and Super FX Accounts by making deposits in the accounts of the Central Bank of Turkey at the following banks:

- In Turkey: one of the 21 branches of the central bank.[13]
- In the Netherlands (EUR): Garanti Bank International N.V. (Amsterdam), Demir-Halk Bank NV (Rotterdam/Amsterdam/La Haye/Utrecht).
- In the United Kingdom (GBP): Turkish Bank U.K. Ltd. (London).

At the same time, accounts can also be opened by making transfers in euros, dollars or Swiss francs via post offices in the country of residence or correspondent banks of the Central Bank of Turkey as follows:

- In Germany, Frankfurt (EUR): Citigroup Global Markets Deutschland AG CO. KGAA, Ziraatbank International AG, Isbank GmbH, Commerzbank AG, Deutsche Bank AG.
- In the Netherlands, Amsterdam (EUR): ABN Amro Bank NV.
- In the United Kingdom, London (GBP): Barclays Bank PLC, Lloyds TSB Bank PLC, HSBC Bank PLC, National Westminster Bank PLC, Sabancı Bank PLC, Türkiye □□Bankası AS, TC Ziraat Bankası.
- In France, Paris (EUR): Société Générale, Crédit Lyonnais, BNP Paribas SA.
- In Switzerland, Zurich (EUR): Union Bank of Switzerland AG, Crédit Suisse.
- In the United States, New York City (USD): JPMorgan Chase Bank, Citibank NA, TC Ziraat Bankası, Vakiflar Bankası TAO.

12. Accounts under the "and" clause permit the husband and wife jointly to use them while those under the "or" clause will enable the husband and wife individually to have access to their accounts.

13. These branches are located in Adana, Ankara, Antalya, Bursa, Denizli, Diyarbakır, Edirne, Erzurum, Eski□ehir, Gaziantep, □skenderun, □stanbul, □zmir, □zmit, Kayseri, Konya, Malatya, Mersin, Samsun, Trabzon and Van.

The fees charged for transferring the deposited amounts to Super FX Accounts by banking institutions in Turkey and abroad are paid by the account holder. Accountholders of foreign currency deposit accounts with Credit Letter can withdraw cash from their accounts by submitting their Turkish passports with their Credit letters to one of the respective banks [in Turkey: branches of the Central Bank of the Republic of Turkey; in the Netherlands: United Garanti Bank International N.V. and Demir-Halk Bank N.V.; in the United Kingdom: Turkish Bank (U.K.) Ltd.].

Super FX accountholders can withdraw money only from branches of the Central Bank of the Republic of Turkey. Moreover, individuals can make transfers to their own accounts abroad from their credit letters and Super FX Accounts.

Interest rates vary according to the duration of the deposits and were at the end of 2004 as indicated in Tables 6.5a and 6.5b[14].

For comparison, at the end of 2004 for a one-year deposit[15] in dollars, Ziraat Bank offered 3%, Isbank 2.50% (3% for deposits over USD 100 000), Garanti Bank 3.25% and Akbank 3% (3.25% for deposits over USD 100 000). Likewise, for a one-year deposit in euros, Ziraat offered 2.75%, Isbank 2.75% (3% for deposits over EUR 100 000), Garanti Bank 2.75% (3% for deposits over EUR 100 000) and Akbank 3% (3.25% for deposits over EUR 100 000).

When comparing the interest rates offered on a one-year term by the central bank to those of the commercial banks, it is apparent that only deposits in Super FX accounts in euros are attractive to migrants as they are above the market rate. In contrast, returns on Super FX deposits in dollars are virtually the same as offered by commercial banks.

Moreover, market interest rates are even significantly higher than those offered by the Central Bank on Foreign Currency Deposit Accounts with Credit Letter, making this type of account rather unattractive. This can doubtlessly be explained by the fact that funds deposited in these accounts are accessible abroad as well as in Turkey, while in the case of Super FX accounts, direct withdrawals can only be made in Turkey (*cf. supra*).

Due to the attractiveness of Super FX accounts, the Central Bank is a major player in the transmission of migrants' savings towards Turkey, but is not necessarily viewed as a competitor by other Turkish banks engaged in the remittances business. The Central Bank of Turkey has a rather long-term focus (*i.e.* savings-targeted, with a possibility of deposits above one year with very attractive rates), in contrast to the short-term approach (*i.e.* transaction-targeted) of Isbank, Ziraat and others.

14. Interest rates are calculated annually and credited to the accounts on maturity date. In the case of withdrawals prior to the maturity date, the interest rate applied to the deposits is 0.25% for Foreign Currency Deposit Accounts with Credit Letter and Super FX Accounts for the duration (minimum one month) the money remained in the account. If the balance amount of the Credit Letter, after the withdrawals, is not below the minimum requirement, the deposit term is not changed. When the total amount of the Credit Letter is withdrawn, and if the balance amount in the account is above the minimum requirement, a new Credit Letter is posted to the account holder. After partial withdrawal, and if the balance amount in Super FX Account is below the minimum requirement, a Credit Letter Account for the residue may be opened at the request of the accountholder.

15. Commercial banks in Turkey cannot legally offer deposit accounts with a term going beyond 365 days.

New banking and financial products offered to migrants by banks and financial institutions

Türkiye □□Bankası A.S. has an insurance company (Anadolu Sigorta) which offers a wide range of products (different types of life insurance, pension schemes, education plans etc.) for persons who wish to take out insurance policies. The main obstacles to offering these and other products to migrants are seen to be the banking regulations of the host country. Most Turkish products do not conform to these regulations.

Originally, tight regulations within the European Union and particularly in Germany (*e.g.* with respect to single-country risk exposure) were meant to exclude "grey markets" from the industry. Nowadays, the regulations are increasingly viewed as placing emerging markets such as Turkey at a disadvantage.

Isbank GmbH has been fairly active with respect to new products and tried to circumvent these problems by collaborating with German banks (such as in the case of Turkey-related investment funds in Luxembourg) and life insurance providers. While the investment funds are very successful, the life insurances were a failure, since the German partner company simply changed the brand name into a Turkish-sounding appellation without modifying the ultimate product or the marketing strategy. The Turkey-related investment fund, however, is not only demanded by Turkish migrants, but also by Germans who wish to profit from the bank's knowledge of the Turkish market and Turkey's growth prospects.

In addition, Isbank GmbH offers Turkish immigrants deposit accounts in New Turkish lira or convertible currency in one of the branches of Türkiye □□Bankası A.S. In this respect, Isbank GmbH acts merely as intermediary, since the money, like the bank holding the account, is in Turkey. Türkiye □□Bankası also offers financial investment accounts in New Turkish lira, which allows individuals to invest on the stock exchange or buy State bonds.

Many first and second generation migrants have invested in property in Turkey. German banks generally do not accept Turkish property or accounts as a security for credits. In contrast, since the late 1990s, Ziraat and Isbank accept these as a collateral, based on an evaluation by their head offices in Turkey.

Although the Turkish banks in Germany have started to introduce new products, this business is still a minor one. However, they plan to increasingly augment their portfolio. In contrast, German banks do not offer any new financial products targeted at migrants.

Summary and conclusions

Remittances from Germany have played an important role for Turkey as a source of foreign currency. Turkish banks have a virtual monopoly in the field of (formal) migrants' remittances from Germany to Turkey. However, a large part of the overall remittance flows appear to be still transferred to Turkey by informal means, notably holiday travel. It is also noteworthy that the formal flows are disproportionately oriented towards the major agglomerations.

Originally, the aim of the large-scale establishment of Turkish banks in the field of migrant remittances was not solely to profit from the migrants' money through transaction fees. In fact, the main focus was a macro-economic one, especially via facilitating the entry of foreign currency into Turkey through low transfer costs.

A particularity of the Turkish situation is the role played by the Central Bank of Turkey, where only migrants and Turkish citizens residing abroad may open bank accounts. For medium and long-term savings accounts from which direct withdrawals are only possible within Turkey, the central bank offers higher interest rates than the Turkish commercial banks. Through these provisions, the central bank has apparently tried to channel remittances into savings and investment in Turkey.

For German banks, remittances are neither a major issue nor a crucial component of their portfolio of activities. They are not competitive in this market and unlike the Western Union, whose principal activity is the transfer of money worldwide, they do not feel the need to acquire a significant market share with respect to migrant remittances. Although Western Union has tried promotion strategies by temporarily reducing the fees charged for transfers, it is still minor player *vis-à-vis* the Turkish banks.

Currently, there appears to be a marked decline in remittance flows, due to the difficult economic situation in Germany, by which Turkish migrants seem to be particularly affected. In the medium to long-term future, a major challenge would arise from the eventual membership of Turkey in the European Union. The adhesion would lead to a situation in which money transfers to Turkey would become "inland" transactions. This would have a profound impact on the fees being charged by German and Turkish banks and, thereby, on the remittance channels. In this context, it should also be noted that Turkish migrants are increasingly integrated in Germany, which may materialise not only in declining remittances flows, but also in growing entrepreneurship and property investment in Germany.

Annex 6.1. Distribution of Turkish residents abroad

Country	Number of resident Turkish citizens abroad
I. Western Europe	
Germany	1 924 154
France	341 728
Netherlands	330 709
Austria	130 703
United Kingdom	90 000
Switzerland	79 470
Belgium	45 866
Denmark	31 978
Sweden	31 894
Norway	10 915
Italy	5 284
Finland	1 981
Spain	1 289
Liechtenstein[1]	809
Luxembourg[1]	210
Subtotal	**3 026 990**
II. Other main destination countries	
Saudi Arabia	100 000
Israel	22 000
Central Asian Republics	19 800
Russian Federation	18 000
Libya	3 200
Kuwait	3 000
Subtotal	**166 000**
III. Other	
United States	220 000
Australia	56 261
Canada	40 000
Other	8 044
Subtotal	**324 305**
Total	**3 517 295**

1. Data for these countries are taken from the Website of the Ministry of Labour and Social Protection of the Republic of Turkey (www.calisma.gov.tr/yih/yurtdisi_isci.htm).

Source: Turkish Ministry for Labour and Social Affairs (2002), *Annual Report on Turkish Citizens Abroad*, Ankara.

Annex 6.2. Remittances and their relative importance with respect to GNP, exports and imports to turkey, in million USD

Year	Remittance inflow	Exports	Remittances as % of exports	Imports	Remittances as % of imports	Remittances as % of GNP
1964	8.1	411	1.97	-537	-1.51	0.1
1965	69.8	464	15.04	-572	-12.20	0.6
1966	115.3	490	23.53	-718	-16.06	0.8
1967	93	523	17.78	-685	-13.58	0.6
1968	107.3	496	21.63	-764	-14.04	0.6
1969	140.6	537	26.18	-801	-17.55	0.7
1970	273	588	46.43	-948	-28.80	1.5
1971	471.4	677	69.63	-1 171	-40.26	2.7
1972	740	885	83.62	-1 563	-47.34	3.3
1973	1 183	1 317	89.83	-2 086	-56.71	4.1
1974	1 425	1 532	93.02	-3 777	-37.73	3.6
1975	1 312	1 401	93.65	-4 738	-27.69	2.7
1976	982	1 960	50.10	-5 129	-19.15	1.8
1977	930	1 753	53.05	-5 797	-16.04	1.5
1978	983	2 288	42.96	-4 599	-21.37	1.4
1979	1 694	2 261	74.92	-5 069	-33.42	2.2
1980	2 071	2 910	71.17	-7 909	-26.19	3.0
1981	2 490	4 703	52.94	-8 933	-27.87	3.4
1982	2 140	5 746	37.24	-8 843	-24.20	3.2
1983	1 513	5 728	26.41	-9 235	-16.38	2.4
1984	1 807	7 134	25.33	-10 757	-16.80	3.0
1985	1 714	7 959	21.54	-11 344	-15.11	2.5
1986	1 634	7 457	21.91	-11 105	-14.71	2.1
1987	1 021	10 190	10.02	-14 158	-7.21	1.2
1988	1 776	11 662	15.23	-14 335	-12.39	2.0
1989	3 040	11 625	26.15	-15 792	-19.25	2.8
1990	3 246	12 960	25.05	-22 302	-14.55	2.1
1991	2 819	13 598	20.73	-21 038	-13.40	1.9
1992	3 008	14 715	20.44	-22 872	-13.15	1.9
1993	2 919	15 345	19.02	-29 428	-9.92	1.6
1994	2 627	18 106	14.51	-23 270	-11.29	2.0
1995	3 327	21 636	15.38	-35 709	-9.32	1.9
1996	3 542	23 225	15.25	-43 627	-8.12	1.9
1997	4 197	26 261	15.98	-48 559	-8.64	2.2
1998	5 356	26 973	19.86	-45 922	-11.66	2.6
1999	4 529	26 588	17.03	-40 671	-11.14	2.4
2000	4 560	27 485	16.59	-54 503	-8.37	2.3
2001	2 786	31 334	8.89	-41 399	-6.73	1.9
2002	1 936	36 059	5.37	-51 554	-3.76	1.1
2003[1]	729	47 253	1.54	-69 340	-1.05	0.3

1. Change in method of accounting for remittances. From 2003 on, spending by migrants during their visits as tourists to Turkey are entered under the heading "tourism" in the balance of payments.
Source: Central Bank of Turkey (balances of payments): State Institute of Statistics (national accounts).

Annex 6.3. Remittances to Turkey and the relative importance of Germany

Year	Amount remitted from Germany to Turkey[1] (million DM)	Exchange rate[2]	Amount remitted from Germany to Turkey (million USD)	Total amount of remittances received in Turkey (million USD)	Resulting part of total remittances to Turkey of German origin (percentage)
1971	1 800	3.4795	517	471	109.8
1972	2 100	3.1889	659	740	89.0
1973	2 400	2.659	903	1 183	76.3
1974	2 850	2.5897	1 101	1 425	77.2
1975	2 600	2.4631	1 056	1 312	80.5
1976	2 750	2.5173	1 092	982	111.2
1977	2 600	2.3217	1 120	930	120.4
1978	2 750	2.0084	1 369	983	139.3
1979	2 700	1.833	1 473	1 694	87.0
1980	3 100	1.8158	1 707	2 071	82.4
1981	3 350	2.261	1 482	2 490	59.5
1982	3 300	2.4287	1 359	2 140	63.5
1983	3 200	2.5552	1 252	1 513	82.8
1984	3 600	2.8456	1 265	1 807	70.0
1985	2 900	2.9424	986	1 714	57.5
1986	2 500	2.1708	1 152	1 634	70.5
1987	2 450	1.7982	1 362	1 021	133.4
1988	2 500	1.7584	1 422	1 776	80.1
1989	2 500	1.8813	1 329	3 040	43.7
1990	2 010	1.6161	1 244	3 246	38.3
1991	1 629	1.6612	981	2 819	34.8
1992	2 610	1.5595	1 674	3 008	55.6
1993	2 838	1.6544	1 715	2 919	58.8
1994	3 000	1.6218	1 850	2 627	70.4
1995	3 000	1.4338	2 092	3 327	62.9
1996	2 640	1.5037	1 756	3 542	49.6
1997	2 600	1.7348	1 499	4 197	35.7
1998	2 400	1.7592	1 364	5 356	25.5
1999	EUR 1 227	1.0658	1 151	4 529	25.4
2000	EUR 1 200	0.9236	1 108	4 560	24.3
2001	EUR 1 200	0.8956	1 075	2 786	38.6
2002	EUR 1 200	0.9456	1 135	1 936	58.6

1. These amounts have been provided by the *Deutsche Bundesbank*. Annual estimates were derived by country taking into account estimated transfers in cash and bank transfers below the exemption threshold of EUR 12 500 and which are not already covered by banks' and post offices' collective reports. Adjustments were made in order not to overestimate transfers undertaken by already naturalised residents.
2. The DM/USD exchange rates have been taken from the German Bundesbank (www.bundesbank.de/stat/weitreihen/html/wj5009.htm); the EUR-USD exchange rates come from the European Central Bank (*European Central Bank Statistics Pocket Book*, December 2003, p. 16).

Source: Central Bank of the Republic of Turkey (balances of payments).

Annex 6.4. Isbank's remittance flows by recipient locality, 2004

City	By number of transfers (%)	By amount of transfers (%)
Istanbul	24,3%	58,0%
Ankara	7,2%	12,2%
Izmir	6,8%	7,6%
Bursa	2,5%	1,9%
Kocaeli	1,6%	1,8%
Antalya	2,8%	1,5%
Zonguldak	1,1%	1,4%
Hatay	1,3%	1,3%
Gaziantep	2,5%	0,8%
Kayseri	2,4%	0,7%
Konya	3,4%	0,7%
Mersin	2,3%	0,7%
Denizli	1,5%	0,7%
Aydin	1,6%	0,6%
Adana	1,8%	0,6%
Mugla	1,0%	0,5%
Eskisehir	0,8%	0,3%
Balikesir	1,5%	0,3%
Kahramanmaras	2,1%	0,3%
Samsun	1,5%	0,2%
Usak	0,8%	0,2%
Manisa	0,9%	0,2%
Adapazari	1,2%	0,2%
Afyon	0,6%	0,2%
Isparta	0,5%	0,2%
Giresun	0,6%	0,2%
Yozgat	1,7%	0,1%
Trabzon	1,3%	0,1%
Aksaray	1,2%	0,1%
Elazig	1,0%	0,1%
Tekirdag	0,5%	0,1%
Sanliurfa	1,1%	0,1%
Artvin	0,1%	0,1%
Rize	0,2%	0,1%
Adiyaman	1,1%	0,1%
Sivas	1,0%	0,1%
Burdur	0,3%	0,1%
Nevsehir	0,8%	0,1%
Iskenderun	0,1%	0,1%
Düzce	0,4%	0,1%
Ordu	0,8%	0,1%
Karabük	0,1%	0,1%
Kirklareli	0,3%	0,1%
Canakkale	0,3%	0,1%
Corum	0,6%	0,1%
Karaman	0,7%	0,1%
Erzurum	0,6%	0,1%
Kirsehir	0,6%	0,0%
Malatya	0,6%	0,0%
Mus	0,4%	0,0%
Igdir	0,4%	0,0%
Agri	0,4%	0,0%
Amasya	0,3%	0,0%
Edirne	0,4%	0,0%
Mardin	0,4%	0,0%
Yalova	0,4%	0,0%
Bingöl	0,3%	0,0%
Tokat	0,3%	0,0%
Kütahya	0,4%	0,0%
Sinop	0,4%	0,0%
Erzincan	0,4%	0,0%
Bartin	0,4%	0,0%
Diyarbakir	0,4%	0,0%
Subtotal	95,4%	95,7%
Other	4,6%	4,3%
Total	100,0%	100,0%

Source: Isbank GmbH.

Table 6.1. Remittance behavior of foreign households in Germany, by nationality

		Nationality					Total
		Spanish	Italian	Turkish	Greek	Former Yugoslav	
Remitted in 2001	yes	20%	18%	27%	23%	32%	25%
	no	80%	82%	73%	77%	68%	75%
Total number of households represented		**45 000**	**248 000**	**574 000**	**120 000**	**138 000**	**1 125 000**

Table 6.2. The relative importance of formal remittances and cash transfers by travel
Estimated number of households per nationality[16]

Cash transfer to country of origin by personal travel of a household member			Household formally remitted in 2001		Total
			Yes	No	
Yes	Nationality	Spanish	5 000	6 000	11 000
		Italian	23 000	51 000	74 000
		Turkish	85 000	105 000	190 000
		Greek	19 000	22 000	41 000
		Former Yugoslav	27 000	15 000	42 000
	Total		**159.000**	**199 000**	**358 000**
No	Nationality	Spanish	4 000	27 000	31 000
		Italian	21 000	138 000	159 000
		Turkish	61 000	289 000	350 000
		Greek	7 000	65 000	72 000
		Former Yugoslav	16 000	74 000	90 000
	Total		**109.000**	**593 000**	**702 000**
	Grand total		**268.000**	**792 000**	**1 060 000**

16. Due to deletion of cases with missing variables, the number of households represented here is smaller than that in Table 6.1.

Table 6.3. Mean transfers per household and the relative importance of the family support motive, by nationality

	Turks	Former Yugoslavs	Italians	Spaniards	Greeks	Total
Mean sum (in DM) formally remitted in 2001	1 006	1 305	1 101	1 119	1 165	1 085
% of which for direct family support	52	58	25	30	38	45
Mean cash transfer (in DM) by travel	929	1 015	936	796	1 090	953
% of which for direct family support	37	40	27	33	24	33
Total mean	**2 009**	**2 385**	**2 119**	**1 994**	**2 249**	**2 105**
% of which for direct family support	**45**	**51**	**27**	**31**	**31**	**40**

Note: DM 1.95583 = EUR 1.

Table 6.4. Overview of the formal remittance channels

	Turkish banks		German banks		Western Union
	Is Bank	**Ziraat Bank**	**Savings banks. Co-operative and private banks**	**Postbank**	
Most frequently used transfer modalities	a) On line transfer proper to the bank b) Collective accounts	a) Electronic transfer proper to the bank b) Collective accounts	SWIFT transfer to a Turkish bank	Eurogiro electronic transfer (international Postal network)	Worldwide on line system
Time for transaction	a) A few minutes b) 2-3 days	a) 1 day b) 2-3 days	4-5 days	About 6 six days	1 hour
Costs of remitting *m* €	• 5.5€ if *m*<5 000 € • 8 € if 5 001<*m*<9 999 € • 1‰ of *m* if *m*>10 000 €	• 6 € if *m*<5 000 € • 1.5‰ of *m* if *m*>5 000 €	Differs from one bank to another. On average. 15 € for *m*=1 000 €	• 15 € for the first 250 € • 5 € for each additional 250 €	5% of *m* (with minimum 26 €. maximum 260 €)
Remarks	No direct further fees in Turkey only if money is withdrawn in Turkish Lira or after 15 days	No direct further fees in Turkey if money is withdrawn in Turkish Lira. or if *m*<1 000 €. or if withdrawal takes place after more than 15 days	Additional fees for the receiver may apply depending on the correspondent bank and the receiver's bank in Turkey	No further fees in Turkey	• No further fees in Turkey • In 2004. promotion for commissions (in co-operation with Reisebank): 6 € if *m*<500 €; 2% of *m* if *m*>500 €

Table 6.5a. Foreign currency deposit accounts with credit letter

Type of foreign currency	One-year deposit	Two-year deposit
EUR	2.50%	2.75% (annual)
USD	1.50%	2.25% (annual)
GBP	4.50%	4.75% (annual)
CHF	0.75%	1.00% (annual)

Table 6.5b. Super FX Accounts

Type of foreign currency	One-year deposit	Two-year deposit	Three-year deposit
EUR	3.50%	4.00% (annual)	4.75% (annual)
USD	3.00%	3.75% (annual)	4.50% (annual)

CHAPTER 7.

WESTERN UNION AND THE WORLD MARKET FOR REMITTANCES

by

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and

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Introduction

The environment

Numerous international organisations, be it the World Bank, the IMF or central banks worldwide, readily admit that remittances represent a very significant source of financial inflow for many countries. However, the regulation of the money remittance industry varies tremendously from jurisdiction to jurisdiction. In fact, in a number of countries, money remittance is controlled through a combination of the application of banking laws, anti-money laundering regulations and general corporate commercial codes. The absence of a more generally accepted framework of money remittance regulation has recently resulted in more focused attention by regulators, international organisations and local authorities in trying to understand how this industry functions. In turn this has lead to a call from various stakeholders to create a more formal framework through legislative controls in the hope of driving the "informal market" to the formal arena and increasing transparency for the benefit of consumers.

Western Union, as a leader in the global market remittance industry, is supportive of efforts which lead to a better understanding of the money remittance sector including the particularities which distinguish this industry from traditional banking activities, the implementation of clear regulation to create a level playing field for all companies competing in this industry and protection for consumers.

Western Union yesterday and today

Given the geographic spread of the United States, it is not surprising that Western Union Financial Services, Inc. ("Western Union") finds its roots, over 125 years ago, in a

company named Western Union Telegraph Company which started offering telegraphic money transfers throughout the country. Today, the Western Union has expanded far beyond the US borders to make available the well recognised black and yellow Western Union branded money transfer services in virtually every country of the world. Along with its sister company, Orlandi Valuta, Western Union's services are offered in over 200 countries and territories at more than 225 000 locations. The company's international division alone has flourished into a 1 000 people workforce spanning over more than 38 countries. The breath of its presence worldwide, combined with its agent business model and its consumer base in the four corners of the globe make Western Union one of the largest providers of cash money remittances in the world.

To achieve its international footprint, Western Union has opted for a business model whereby the money transfer service is provided not by Western Union itself but rather through contractual representation agreements with locally authorised companies (which it commonly refers to as "agents") to provide the services to the general public. The foundation of this model requires that all agents hold the necessary licenses or government permissions needed in order to provide money remittance services to the general public. Western Union's agents are divided more or less equally into three classes of trade which are banks, post offices and private entrepreneurs. To give a few examples of the type of agents, these include post offices in over 80 countries including France, Germany, Spain, Argentina, Australia, China, India, Morocco, Algeria, Tunisia; trans-national banks such as Société Générale, BNP Paribas and Standard Chartered, and private companies like DHL and American Express.

Behind Western Union stands another market leader, its parent, First Data Corporation ("First Data"), a US-based, publicly-traded financial services and data processing firm. First Data is the world's largest processor of credit and debit cards. With approximately 32 000 employees worldwide, First Data provides credit, debit, private-label, smart and stored-value card issuing and merchant transaction processing services; Internet commerce solutions; money transfer services; money orders; and check guarantee and verification services. The STAR Network offers PIN-secured debit acceptance at 1.4 million ATM and retail locations. First Data also offers a variety of payment services to businesses around the world.

Description of money transfer services: a Western Union perspective

The basics

Western Union's basic service is very simple: it involves transferring cash from consumer-to-consumer, often referred to as the "Money in Minutes" money transfer service. Another important feature of this system is the fact that it is a "will call" system, meaning that the recipient may receive the money transfer at any location in the specified location where Western Union services are provided. There is no need to go to a specific location.

Essentially, the service consists of three steps: 1) money is received from a sender with instructions to remit that money in cash to a specific recipient in a specific country; 2) the actual transfer of the money through a proprietary technological platform of Western Union; and finally 3) money is paid out to the specified recipient. Accompanying this simple three step process are numerous procedures and safeguards to ensure the quality and reliability of the service which will be discussed below. However, an important factor to note is that a money transfer transaction does not involve the making of a "deposit" since the sender does not intend to deliver the funds to an

institution for safekeeping for return to the sender at a later date. Rather, the purpose of the transaction is to move the money from the control of the sender to the control of the recipient in a short time and generally across important geographical distances.

There are some important facts to know about the Western Union branded money transfer services. All fees are paid by the sender; recipients never pay a fee to receive money unless required to do so by local law. In most countries, the exchange rate is fixed at the moment that the transfer is sent (also known as a "Fix on Send" transfer). This is an important feature because it allows the sending agent to inform the sender of the exact amount of money that the recipient will receive. In other words, the consumer exchange rate is guaranteed for a period of 45 days. Western Union agents usually accept and pay out transactions in local currency only. In some countries, however, where permitted by law and customary for consumers, payment may be made additionally or exclusively in a major currency, such as US dollars or euros. Money transfers are usually paid in cash. Western Union money transfers can usually be retrieved minutes after the transaction is initiated, subject to hours of operation in the receiving country.

The details

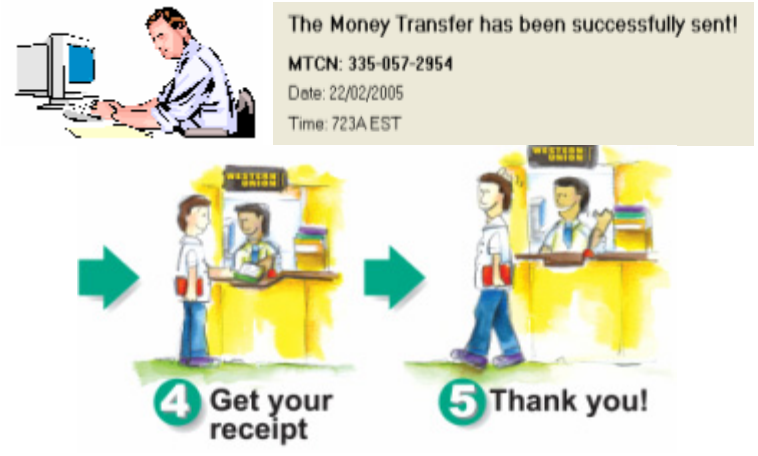
As indicated previously, Western Union's business model involves contracting with locally authorised entities to offer the Western Union branded money transfer services in their locations in their country. From an operational perspective, these agents are all connected through a nerve system of telecommunication infrastructure varying from dedicated lines, satellites, internet and telephone connections, to a central system/database owned and controlled by Western Union (the "Western Union System"). The access to the Western Union System by the agent is generally provided a proprietary Western Union software which permits the agent to capture all necessary information about a send transaction and to retrieve the same for receive transactions. The software and Western Union System are designed to meet the needs of consumers and agents in an efficient and user-friendly manner, while providing the security and resilience features required in order to process nearly 100 million transactions annually in a safe, fast and efficient manner.

A typical transaction would proceed as follows: A consumer in Paris who wishes to send money to Casablanca enters a Western Union agent location in Paris, such as La Poste location, fills out a simple "To Send Money" form, provides any the necessary supporting documentation (generally identification) required in the consumer's country and by Western Union's own policies and procedures, and delivers the money, in cash, along with the service fee, to the agent. This is illustrated below:

TO SEND MONEY



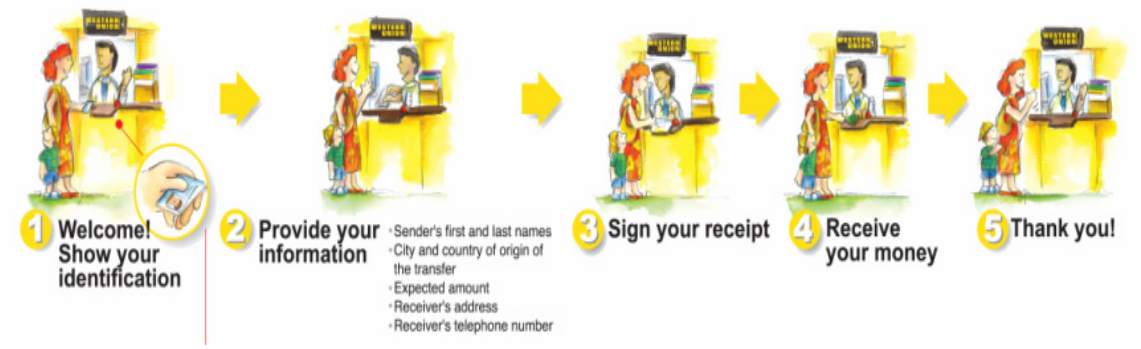
The agent enters the details of the transaction into a computer terminal linked to the Western Union System. The information flows from the agent's location to Western Union's data processing centre. The Western Union System generates a unique "Money Transfer Control Number" (MTCN number) for each transaction, which the agent gives to the sender for him of her to communicate to the recipient.



Consumers in many countries may send messages along with the money, pose a "test question" that the recipient will be required to answer before the transaction is paid, or request Western Union to notify the recipient by telephone of the availability of funds. Other additional services – such as home delivery of the funds – are available in some countries as well. Depending on the nature of the additional service, the sender may have to pay an extra fee.

In order to receive funds, a recipient enters a Western Union agent location, completes the "To Receive Money" form and presents it, along with identification to the agent. The agent confirms the documentation, follows the local procedure which may involve additional steps with respect to security (such as copying the recipient's identification) required by local requirements and/or Western Union policy, locates the transaction in the Western Union System and pays the money to the recipient.

TO RECEIVE MONEY

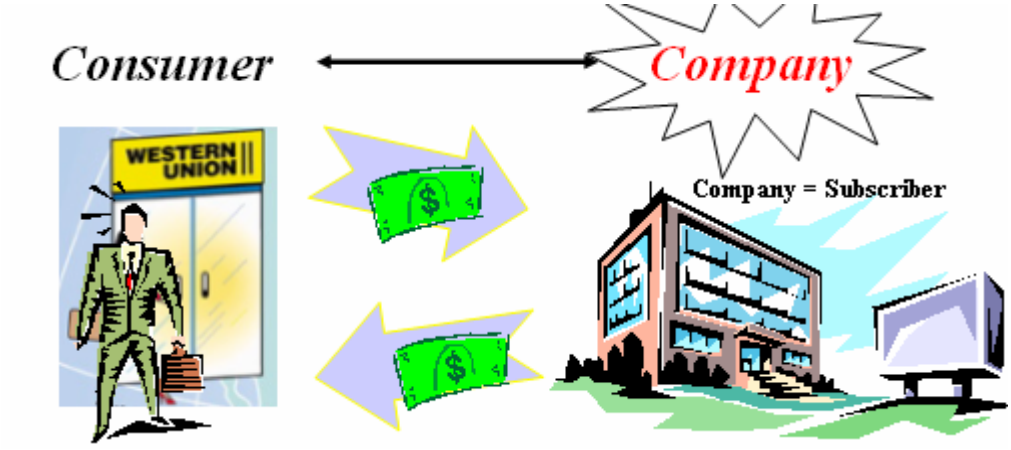


Some other services

In addition to the standard consumer-to-consumer cash-to-cash money transfer services described above, Western Union also offers in some countries two "commercial" services, known as "QuickPay" and "QuickCash". QuickPay provides a means by which consumers can pay merchants through the Western Union system. For example, Ford Motor Credit, a QuickPay subscriber, uses the system to collect payments for car parts from automobile repair companies in remote locations where the banking system is slow or unreliable.

QuickCash offers companies a means of disbursing cash to their customers. For example, MasterCard International, a QuickCash subscriber, uses the Western Union system to disburse emergency cash to its cardholders who have lost their credit cards.

In general, QuickPay and QuickCash transactions are processed identically to "Money in Minutes" transactions described above, although the fees may vary.



In some markets, depending on the user accessibility and acceptance, Western Union provides the ability to initiate a money transfer via other methods such as accessing the Internet (wu.com), using a Debit Card, calling a Customer Service Center, having recourse to their banks which are Western Union agents to take advantage of Cash to Account or Account to Cash transactions

The consumer

Although the Western Union services are not limited to anyone in particular, the users of Western Union have traditionally been the following:

- *Migrant workers* who send money back home for family support, often on a regular basis, but also during special times during the year such as Tabaski, Aid El Adha, Christmas;
- *Tourists* who experience urgent needs, encounter emergencies or simply wish to avoid carrying cash during a long trip for security reasons; and
- *Students* who receive regular support from family, as well as need to make small bill payments such as rent and school fees.

A quick overview of the traditional users of money transfer services explains their tendency to have recourse to money remitters rather than traditional banking services. Often they are not in their home country, their needs are urgent and they tend to be less banked. Money remitters, such as Western Union, are able to build a greater affinity with them.

Repeatedly, studies, consumer focus groups and market surveys demonstrate that most of these consumers usually have the following expectations:[1]

They expect to:

- Send/Receive money within minutes
- Have payment in cash guaranteed
- Find a location nearby to the sender and receiver
- Not need a bank account
- Have a service that is simple and practical to use
- Transfer their money safely and reliably

These are the attributes which motivate them to work with money remitters.

Western Union values its consumer relationship and strives to understand their needs. Western Union understands that it is much more than money that people send. Its mission is to ensure that the money is received to meet the aspirations of the sender

Western Union's agents around the world

Western Union around the world has entered into contractual arrangements with highly reputable institutions in the banking and postal sectors, as well as respected private companies. To add to the examples previously mentioned, in Africa for example, Western Union works with several Post offices such as in Senegal, Morocco or Tunisia, with international banks such as Société Générale, BNP Paribas, Standard Chartered Bank, and domestic or pan-African banks such as ECOBANK, CBAO, Nile Bank, BIAT. In addition, in a few jurisdictions, Western Union itself, thought its subsidiaries, operates locations. This allows Western Union to obtain valuable insight and experience first hand of the money remittance market and reassure regulators that it fully understands the activity in which it is engaged. It also provides an important laboratory in which to test new ideas.

Prior to becoming a Western Union agent, prospects go through a rigorous review process which includes compliance, legal, credit and commercial reviews carried out in-house by Western Union. This process is important to ensure that the network of agents meets the standards set out by Western Union but also that they have the necessary resources to adhere to the local laws and regulations and to the Western Union policies and procedures which often time are stricter than the local requirements. In addition to the reviews carried out, the contractual arrangements specifically set out the obligation of each agent making the agent liable for their actions and thereby ensuring their interest in maintaining the highest standards.

1. Payment subject to the opening hours of local agent locations, difference in time zones, and applicable restrictions.

For many of the agents, the Western Union services which they offer represent an important source of revenue that has enabled the development of their own networks and the introduction of new product or service offerings. Therefore, Western Union has been a facilitator in the agent's effort to create access to more sophisticated products and services to the public, even in remote geographical areas.

The corporate citizen

Understanding the needs of its consumers as well as its role in the global community, First Data established the First Data Western Union Foundation. The Foundation has been entrusted with the responsibility to further the global values of First Data Corporation by contributing to the improvement of health, education, and human services for those most in need. Through the generous contributions of First Data, its many business segments, employees, suppliers and Western Union Agents worldwide, the Foundation is able to fulfill its mission with compassion, one community and one person at a time.

The Foundation focuses on different areas of giving:

Global grant making

Grants are provided for educational, health, and human services programmes, especially in support of initiatives that address literacy, healthcare for the uninsured, poverty alleviation, language barriers and cultural adjustment.

Matching gift programme

When employees make a donation to a non-profit organisation, First Data Corporation matches the gift dollar-for-dollar. Each year, hundreds of thousands of matching dollars are donated through the First Data Western Union Foundation to make this corporate charitable commitment possible.

In 2003, the First Data Western Union Foundation launched an innovative programme to encourage and enhance charitable giving by Western Union Agents and First Data Clients from every corner of the globe. When an Agent or a Client of First Data makes a donation to the Foundation, it can be matched dollar-for-dollar and then donated to a non-profit organisation chosen jointly by the Foundation and the Agent or the Client.

Disaster relief

Emergency assistance around the world to help those whose lives have been devastated by disaster whether it is a tornado in Dominican Republic or a tsunami in Asia.

The regulatory framework

The direct national framework: applicable laws and regulations

Western Union is a strong advocate for regulatory compliance. It prides itself in complying with both the letter and the spirit of the law. This is an important philosophy to embrace given that numerous countries impose limitations and restrictions on the money transfer business. It is Western Union's policy to comply and to require its agents to comply fully with all applicable laws and regulations. Because Western Union essentially

operates through a worldwide network of agents, Western Union requires its agents to hold all necessary licenses or authorisations required locally as well as fulfill all procedural requirements in the agent's country of operation.

The money transfer industry is regulated in many different ways and in addition to black and white law it is often influenced by government policies, world organisation guidelines and recommendations of interested bodies. However, generally, the legal and regulatory framework within which the money transfer business operates can be divided into two areas: firstly, licensing requirements (including such matters as local control, minimum capital, prudential requirements and the like) and secondly, transaction requirements (including such matters as currency controls, anti-money laundering and anti-fraud efforts, tax collection and data protection/privacy rules).

Licensing requirements

Many countries require companies that undertake to remit money on behalf of consumers to hold a license. These licenses may vary from a specific money remittance license to a full banking license. Customary qualification for a remittance license may include:

- Minimum capital and/or liquidity requirements;
- Disclosure of the licensee's ownership structure;
- Experienced personnel;
- Existence of compliance procedures;
- Supervisory control; and
- Financial guarantees to protect consumers

to name but a few.

Some jurisdictions have opted for a registration process rather than a licensing process but nonetheless often require very similar information. The advantage of a registration system is that it allows consumers a means by which to ensure that the company with which they have chosen to deal has satisfied at least some minimum requirements. From the regulators perspective, a registration system permits an easier means to enforce regulation by being able to take action against those unscrupulous entities which operate without satisfying at least some minimum requirements. The more straightforward the regulatory framework, the greater the transparency for all and generally, the greater the protection for the consumer.

Typically, a money remittance licensee has fewer regulatory obligations than a commercial bank, since a money remittance company does not accept deposits, make loans or engage in other banking activities. Nonetheless, there are usually stringent reporting requirements.

In other countries, no specific regulatory framework to govern the money remittance business has been implemented. In such cases, there are usually two vastly different realities. Either the country only permits banks, financial institutions or foreign exchange houses to perform money remittance or there is a complete absence of regulation. In the first case, Western Union only engages banks, postal organisations and/or exchange houses. On the other hand, in the face of the absence of regulatory rules and controls, Western Union always errs on the side of prudence introducing its own internal policies

and procedures to ensure compliance with all other laws in the jurisdiction and enforcing its own minimum standards. The key being to provide a safe and reliable environment in which consumers can send money without risking the uncertainties of the informal market which evades all form of controls.

Transaction requirements

Many countries regulate individual money remittances. Such regulation can take the form of required documentation, reporting of certain transactions by the agent or the restriction to carry out certain transactions in the first place. For example, many countries require that remittances above a certain value threshold be reported individually. Other countries require money remitters to report aggregate remittance amounts by senders or receivers. Other countries restrict the amounts that may be sent into or out of their country in one transaction. Such value limits may be absolute or may allow for monetary authority approval of higher value transactions.

One characteristic of Western Union's money transfer system is important to know and is often not well known is the fact that the typical remittance made through the Western Union branded money transfer service is small. Although the range varies considerably by country, the overall average per transaction in 2004 was less than USD 400. In addition, there are two important characteristics of the Western Union System itself which foster compliance with legal restrictions, namely:

- Western Union's data system makes and stores an electronic record of each remittance. Western Union's agents additionally retain paper copies of the "To Send Money" and "To Receive Money" form. These electronic and paper trails can be accessed upon request by appropriate government authorities.
- Western Union's own policies, enforced through system controls, often restrict the size of remittances or require identification at thresholds more stringently than those required by local laws.
- Western Union has implemented a robust security system comprised of numerous controls which prevent specific transactions from being compromised. In addition, because the money transfer computer system is proprietary to Western Union, it is not open to third parties and therefore not susceptible to external attacks.

Western Union is also cognisant of its consumers rights and concerns regarding the security of their personal data, therefore, it strives to ensure that the use of the information collected by its agents is compliant with the protection of consumer privacy regulation and also respectful of the obligations undertaken towards the consumers as provided for in the forms used by the senders and receivers.

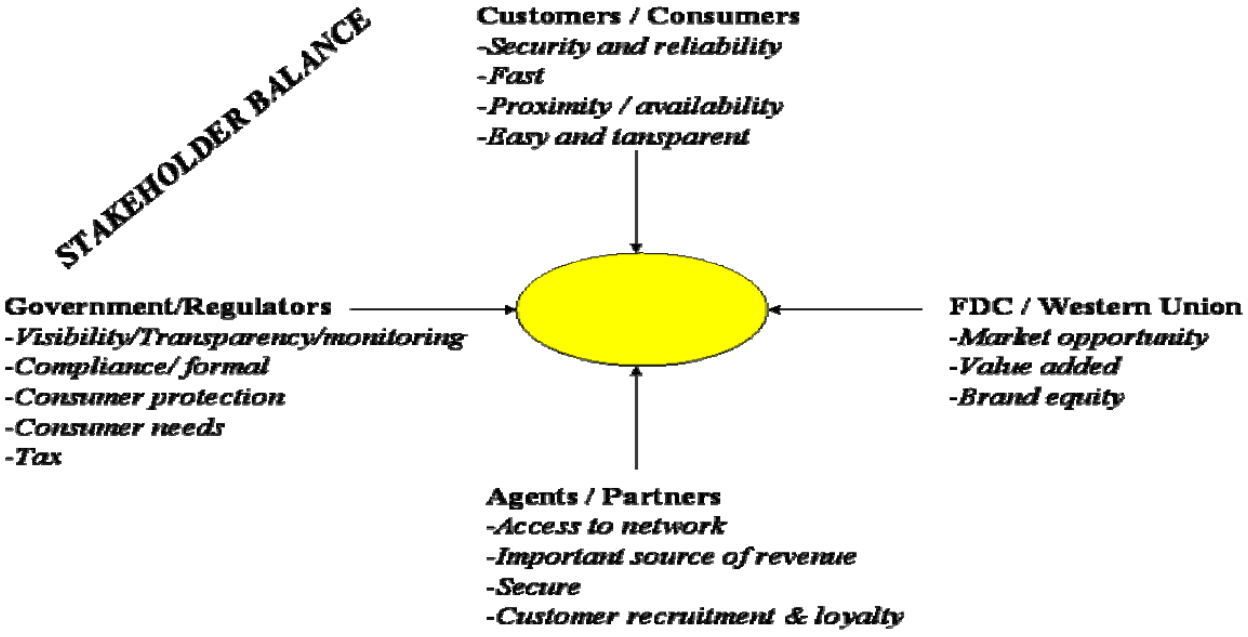
The community framework: involved and interested bodies

Western Union participates in a number of US, European and other anti-money laundering and regulatory bodies, including the US Treasury Financial Crimes Enforcement Network ("FINCEN"), the Financial Action Task Force, the US Money Remitters Association and the European Community's anti-money laundering effort organised under the auspices of the Directorate General XV – Internal Market and Financial Services. Western Union takes an active interest in the development of clear regulatory frameworks in the various jurisdictions where it operates. It is often invited by

regulators to participate in drafting of regulations, to comment on advance drafts, to provide training to its agencies, to mention a few outreach activities.

Stakeholder balance

The key success factor of the Western Union model as a global money remitter lies squarely on the solid and stable equilibrium it has achieved through balancing the needs and requirements of the different stakeholders. Each stakeholder comes to the money remittance business with a particular focus and need. Finding these overlapping needs to create a strong center which can then reach out to satisfy the individual and often competing needs of the stakeholder is the strength of Western Union.



Consumers require key attributes, the absence of which may tip the balance to opt for an informal service. This is because they are prepared to pay a fair price for those attributes but if the attributes are absent, then they become much more price elastic. Amongst those attributes can be cited security and reliability for the transaction, speed, proximity and opening hours of the location, transparency and ease of transaction, as well as the quality of the service and interaction. The voice of the consumers is clear on this.

Governments/Regulators require visibility, transparency and monitoring of the money transfer to permit a control of the flow of money movements but also to respond to their social obligation to fight money laundering and terrorism financing. They also require the money remitters to meet the compliance requirements enacted locally and endorsed by international bodies. They strive to reduce and eliminate the share of informal transfers. They need to ensure that money remitters will honour their guarantee to pay consumers, create systems and procedures that are resilient, as well as respect

consumer data privacy. Yet, they are also aware that consumer and social needs are addressed through the money transfer systems in an efficient manner. That managed properly, this industry can provided needed financial resources through the taxes that are levied against the profits generated by the local agents offering these services. Western Union has demonstrated through its services that it is co-operative and supportive of efforts to reasonably regulate the money remittance sector.

Agents of Western Union benefit from the access to the largest network of money transfer services worldwide. They can offer their customers additional services and cross-sell their own products. These activities generate an important source of income in many receiving countries (for example in Africa). Indeed, in many cases this revenue has enabled local banks or institutions to grow their network, get closer to the customers and start offering and cross-selling other traditional banking or postal services profitably, whereas the effort would have been too important without the revenues generated by offering the Western Union branded money transfer service. Last but not least, the agents are comfortable to offer the Western Union services to their customers knowing that it is secure for both their customers and themselves and that behind the service stands a respected company which advocates strong compliance with local requirements.

Western Union as a commercial entity has an opportunity to expand its presence as a market leader of expertise and know-how in a high growth market. Its goal is to provide at all times the best value equation. By balancing the needs of the various stakeholders, it is able to attract consumers, create a loyal consumer base and meet consumer needs. It is also attentive to developing and maintaining a respected profile as a corporate citizen and enhancing its brand image with an eye to the future of the industry.

Conclusion

Key for the healthy growth of the money remittance industry is a clearer understanding of how the industry functions, the interests and needs of each stakeholder, the existence of a reasonable and transparent regulatory framework and the uniform enforcement of the laws and regulations.

Opportunities such as this to participate in the dialogue concerning the money remittance industry in order to address the concerns raised regarding the fundamentals of compliance, the commercial realities and the actors themselves will hopefully lead to better understanding of this sector, correct inaccuracies resulting from the lack of proper information and improve the debate on what is the appropriate regulatory framework.

Western Union is an active player in the money remittance market, it is mindful and supportive of efforts to create a level playing field for all those participating in the industry and strong advocate for reasonable and transparent controls which help are considerate of consumers' needs to send money to the people in their lives from whom they are separated.

CHAPTER 8.

THE MONEYSEND AND MASTERCARD™ SERVICES

by

Olivier Denis,
MasterCard, Europe

What is MasterCard MoneySend?

MasterCard MoneySend is a funds transfer service run by MasterCard Europe on behalf of its member banks.

The MasterCard MoneySend service:

- supports member banks in managing cross-border fund transfers between cardholders who have a MasterCard card and/or a Maestro card;
- leverages the existing MasterCard international network to transfer the funds (which are for small amounts - usually only up to 300 euro);
- is in line with the EU directive on funds transfer;
- respect FATF recommendations on anti-money laundering.

What is the objective of MasterCard MoneySend?

The objective of MasterCard MoneySend is to deliver a hosting platform to member banks that provide superior functionally and benefits - in terms of delivery, cost, and quality of service - compared to current ways of managing cross-border fund transfers.

What are the benefits to members?

Profiting from MasterCard's MoneySend, you can:

- Capitalise on MasterCard's existing infrastructure to optimise transfer cost and efficiency for smaller amount transfers internationally.
  - improve service due to Straight Through Processing
  - reduce processing time
  - reduce exception processing
  - improve monitoring and traceability of fund transfer transactions

- Strengthen security management in line with EU and G8 anti-money laundering recommendations
- Boost your revenues from transfers among 230 million Maestro cards linked to bank accounts and MasterCard cards
- Grow your card business by adding this functionality to your cards
- Differentiate your offer in the marketplace
- Be known as an innovator by becoming the first on the market to offer this service

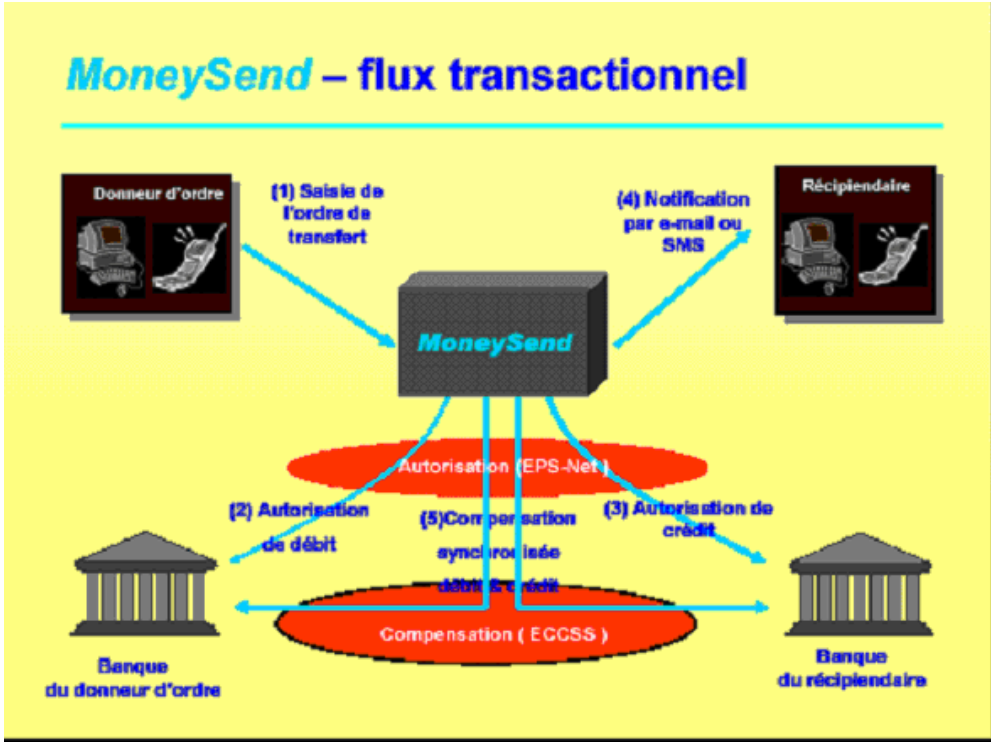
What are the benefits to cardholders?

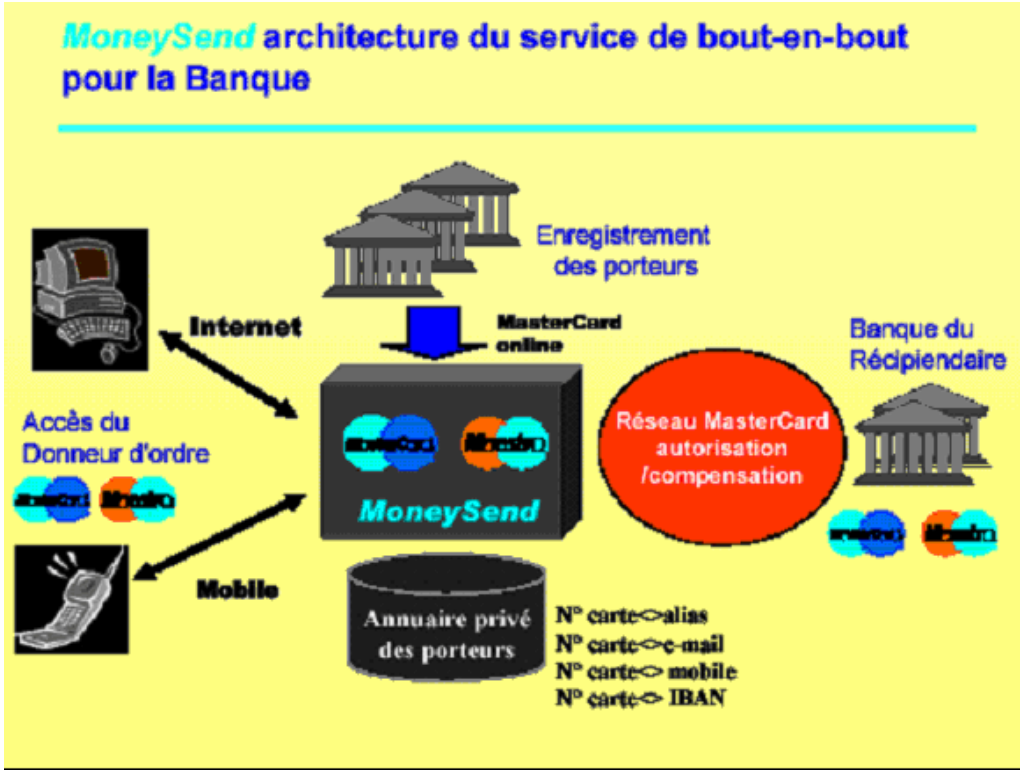
- Convenience: the transfer is made through the Internet. SMS and email notifications provide real-time transfer status.
- Money and time savings: it's cheaper and faster than other ways of making cross-border transfers (useful for sending money to relatives abroad, for example).
- Peace of mind: the transfer goes securely through the bank and the card details are not revealed to the other party.

Detailed description of the features

The MasterCard MoneySend hosting platform offers you the following features:

- End-to-end Straight through Processing, leveraging the MasterCard global network;
- Secure remote access to the platform for systems administration through MasterCard Online:
  - Security parameters setting
  - Cardholder account management (registration and activation, either through a batch file or online through the MasterCard MoneySend directory services)
  - Reporting tools (statistics on traffic, history, security)
- Security management:
  - Cardholder authentication: via MasterCard's own authentication (user ID and password, or mobile Interactive Voice Response call back) or the issuer's current authentication (such as for Internet banking or MasterCard SecureCode)
  - Security parameters configurable by the issuer such as velocity, maximum value, maximum number of transactions
  - Traceability of fund transfers in the system administration tool: in line with the EU directive and G8 Financial Action Task Force recommendations for fighting money laundering
- White label website branded and customised for your bank:
  - Cardholder functionality: sending funds, requesting funds, viewing history, email and SMS messaging notices
  - Multiple languages available, including English, Italian, and German
- Project management, testing, second line support, and technical consultancy to implement access to the platform;
- Marketing consultancy services to support the commercial launch.


MoneySend – flux transactionnel
Donneur d'ordre
(1) Saisie de l'ordre de transfert
(4) Notification par e-mail ou SMS
Récipiendaire
MoneySend
Autorisation (EPS-Net)
(2) Autorisation de débit
(5)Compensation
(3) Autorisation de crédit
Compensation (EGCSS)
Banque du donneur d'ordre
Banque du récipiendaire


MoneySend architecture du service de bout-en-bout pour la Banque
Enregistrement des porteurs
Internet
MasterCard online
Banque du Récipiendaire
Accès du Donneur d'ordre
Réseau MasterCard autorisation /compensation
MoneySend
Mobile
Annuaire privé des porteurs
N° carte<>alias
N° carte<>e-mail
N° carte<> mobile
N° carte<> IBAN

ANNEX TO PART II.

FINANCIAL INFRASTRUCTURES AND REMITTANCE VIA THE BANKING SYSTEM AND OTHER CHANNELS: THE CASES OF PORTUGAL, MOROCCO, LATIN AMERICA AND THE CARIBBEAN*

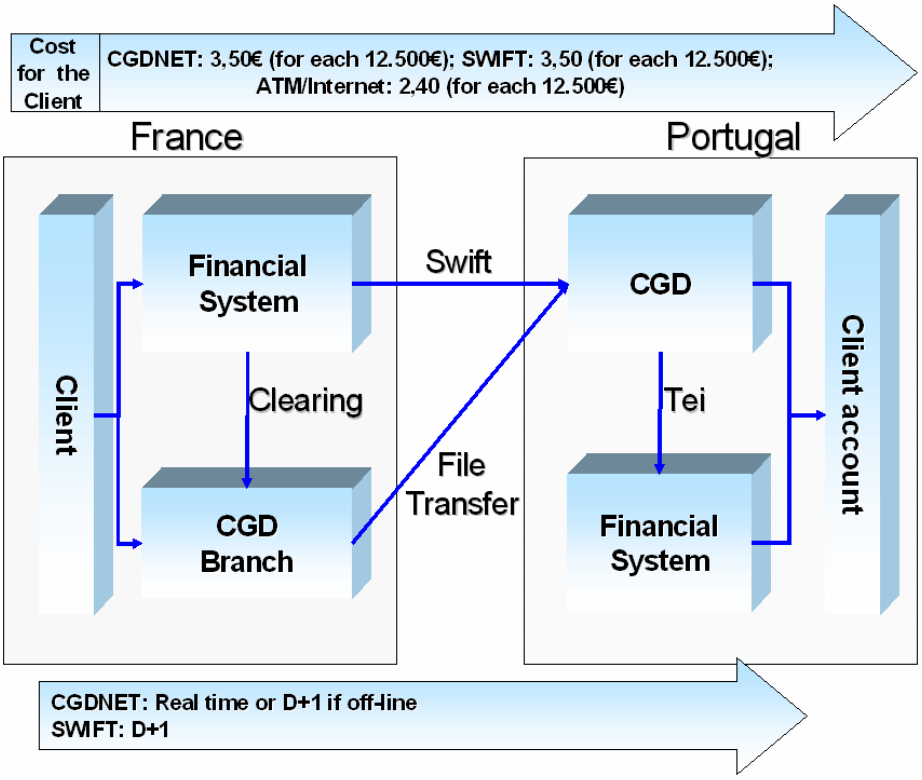
* The annex to Part II reproduces PowerPoint presentations made during the conference.

ANNEX II.1.

MIGRATION, REMITTANCES AND DEVELOPMENT: THE CASE OF PORTUGAL

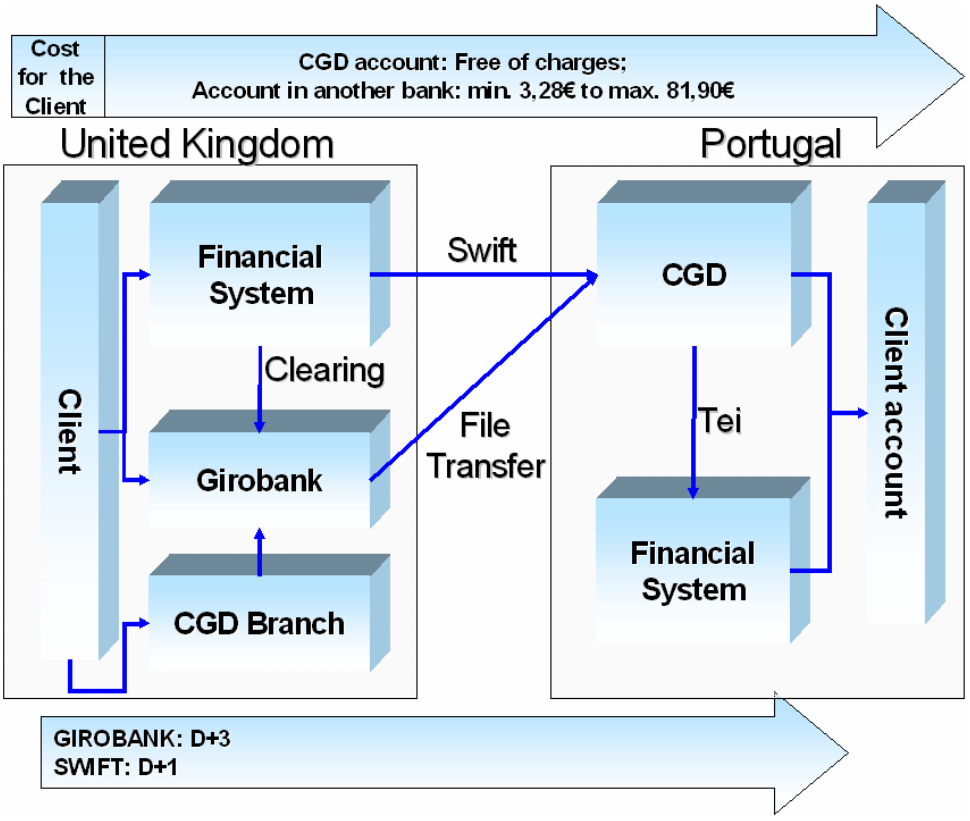
by

A. José Nascimento Ribeiro,
Caixa Geral de Depósitos (Lisbon)



Transfers : France					
CGD			Banking system		
2001	2002	2003	2001	2002	2003
441.762	362.831	344.143	1.520.420	942.767	899.279

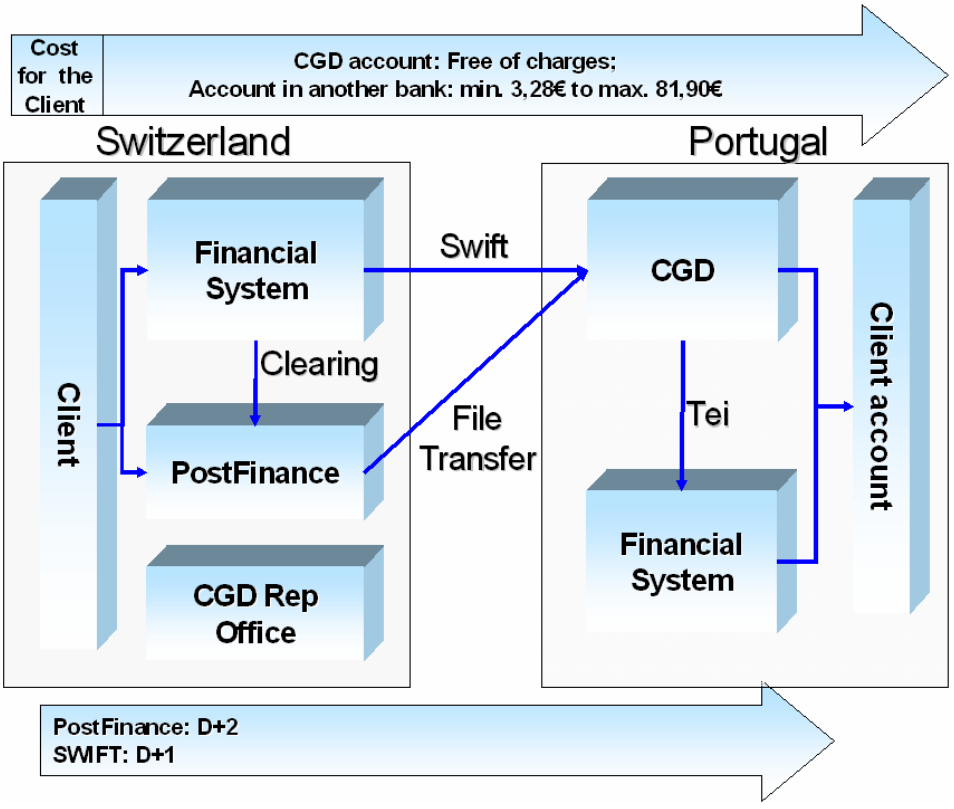
Unit: 10^3
Source: Bank of Portugal



Transfers : United Kingdom					
CGD			Banking System		
2001	2002	2003	2001	2002	2003
10.478	26.573	32.439	232.840	217.990	185.412

Unit: 10^3

Source: Bank of Portugal

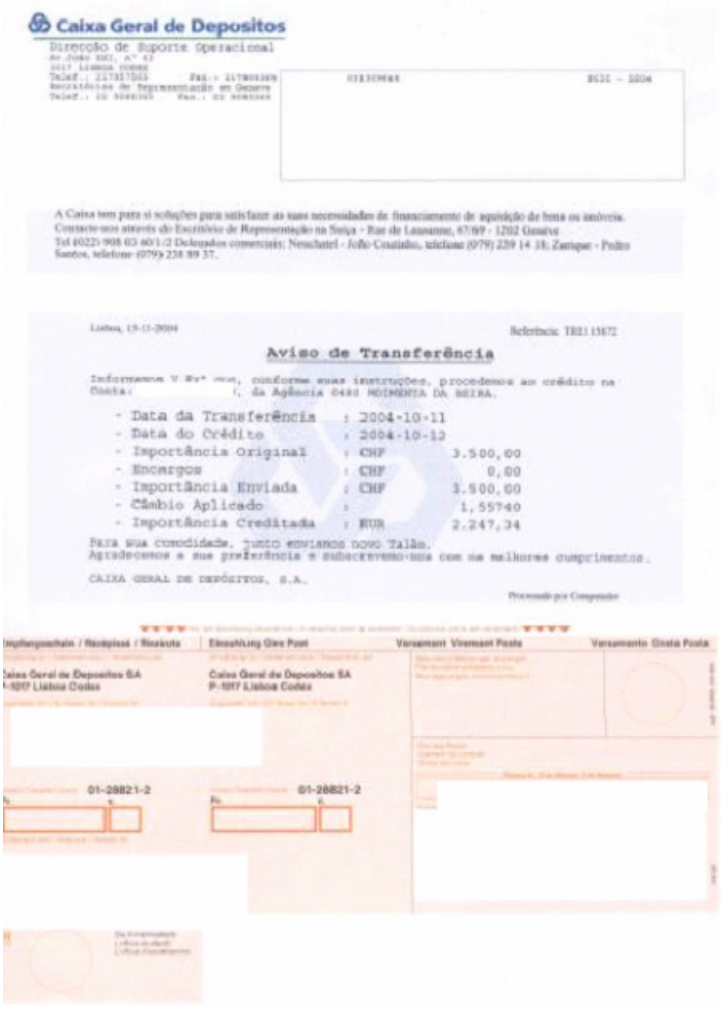


Transfers : Switzerland					
CGD			Banking System		
2001	2002	2003	2001	2002	2003
184.077	217.244	198.354	721.871	632.493	521.596

Unit: 10^3

Source: Bank of Portugal

Remittance services: sample



Caixa Geral de Depositos

Direcção de Suporte Operacional

A Caixa tem para si soluções para satisfazer as suas necessidades de financiamento de aquisição de bens ou imóveis.
Contacte-nos através do Escritório de Representação na Suiça - Rue de Lausanne, 67/69 - 1202 Genève
Tel 0(22) 908 03 60/1/2 Delegados comerciais: Neuchatel - João Coutinho, telefone (079) 239 14 18; Zurique - Pedro Santos, telefone (079) 238 89 37.

Lisboa, 15-11-2004 Referência: TRE113872

Aviso de Transferência

Informamos V.Ex.ª que, conforme suas instruções, procedemos ao crédito na Conta: , da Agência 0480 MOIMENTA DA BEIRA.

- Data da Transferência	:		2004-10-11
- Data do Crédito	:		2004-10-13
- Importância Original	:	CHF	3.500,00
- Encargos	:	CHF	0,00
- Importância Enviada	:	CHF	3.500,00
- Câmbio Aplicado	:		1,55740
- Importância Creditada	:	EUR	2.247,34

Para sua comodidade, junto enviamos novo Talão.
Agradecemos a sua preferência e subscrevemo-nos com as melhores cumprimentos.

CAIXA GERAL DE DEPÓSITOS, S.A.

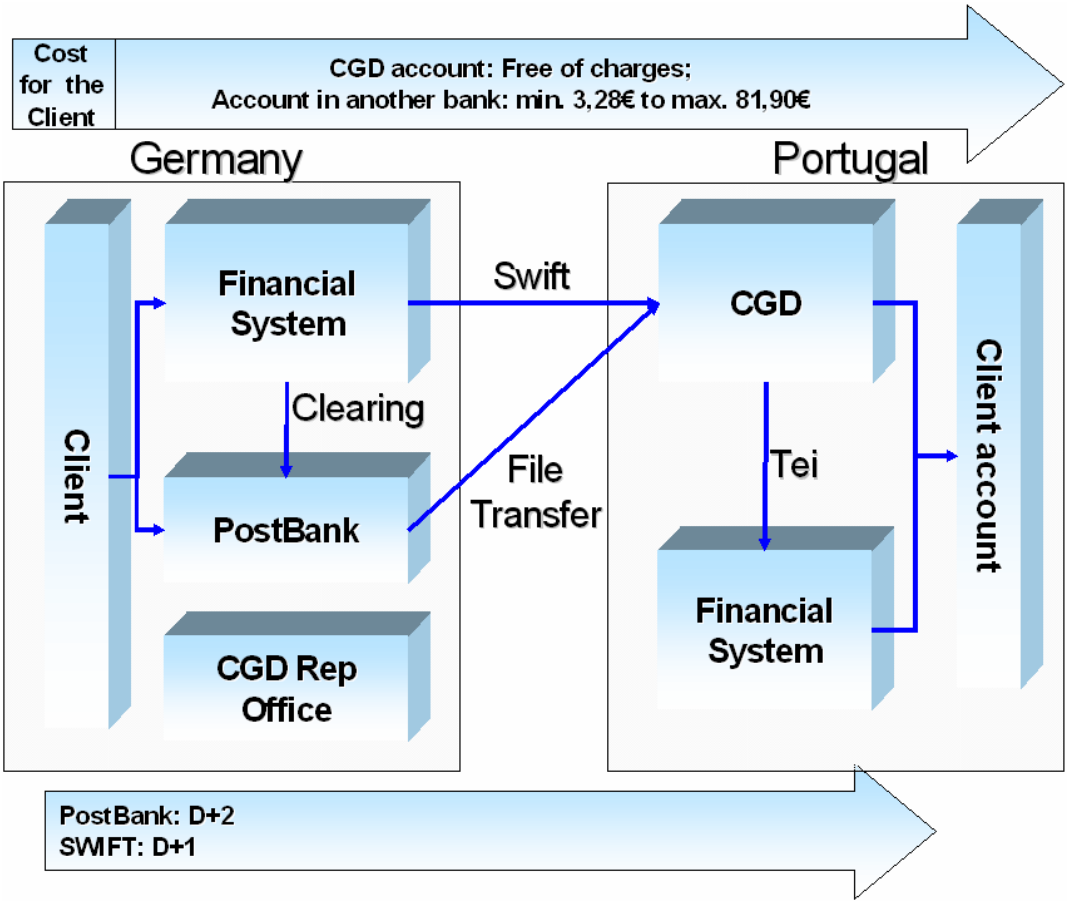
Processado por Computador

Caixa Geral de Depósitos SA
P-1017 Lisboa Codex

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Caixa Geral de Depósitos SA
P-1017 Lisboa Codex

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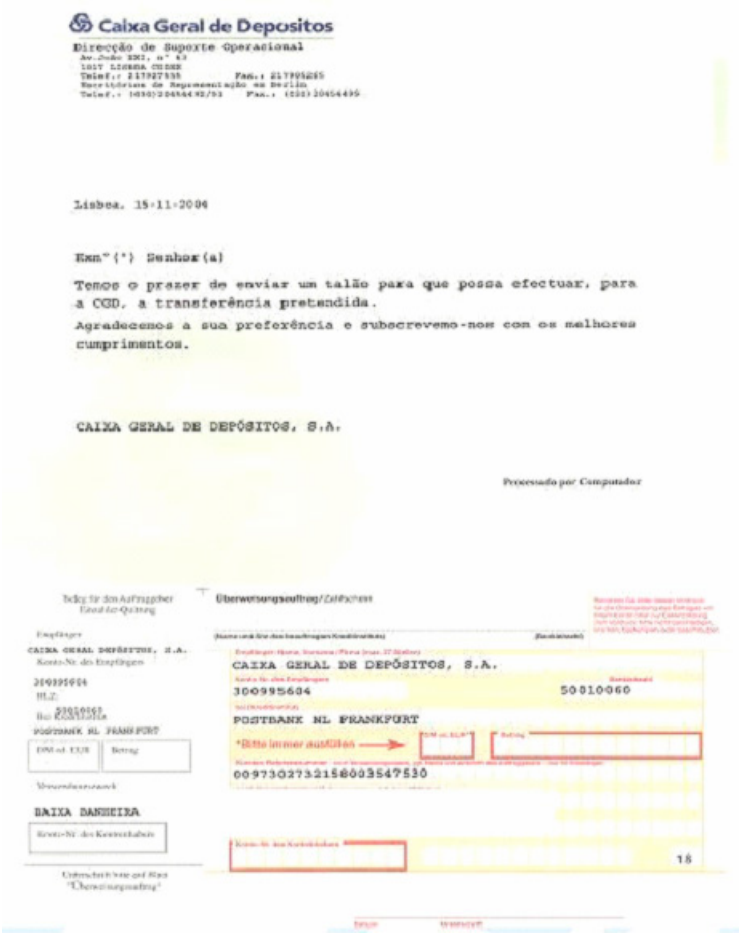


Transfers : Germany					
CGD			Banking System		
2001	2002	2003	2001	2002	2003
36.427	47.093	48.323	325.245	208.197	212.302

Unit: 10^3

Source: Bank of Portugal

Remittances services: sample



Caixa Geral de Depositos

Direcção de Suporte Operacional

Lisboa, 15-11-2006

Exmº(ª) Senhor(a)

Temos o prazer de enviar um talão para que possa efectuar, para a CGD, a transferência pretendida.

Agradecemos a sua preferência e subscrevemo-nos com os melhores cumprimentos.

CAIXA GERAL DE DEPÓSITOS, S.A.

Processado por Computador

Überweisungsauftrag / Zahlschein

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POSTBANK NL FRANKFURT

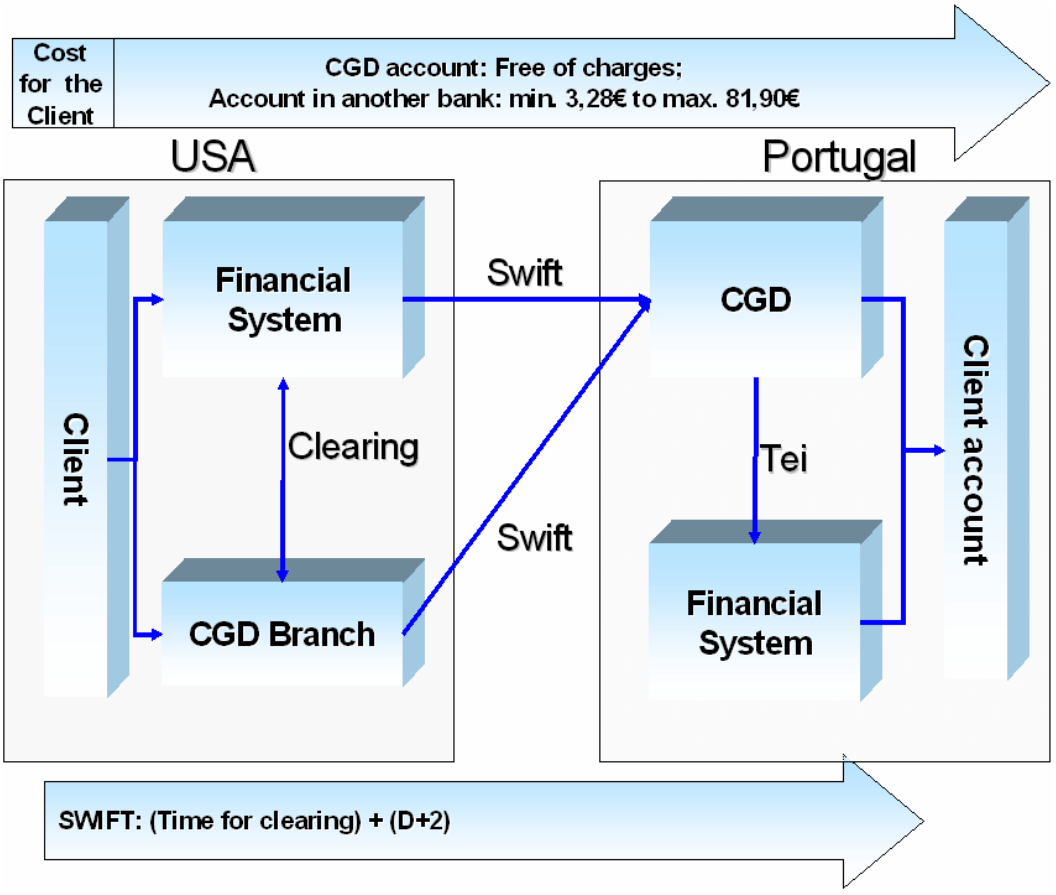
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POSTBANK NL FRANKFURT

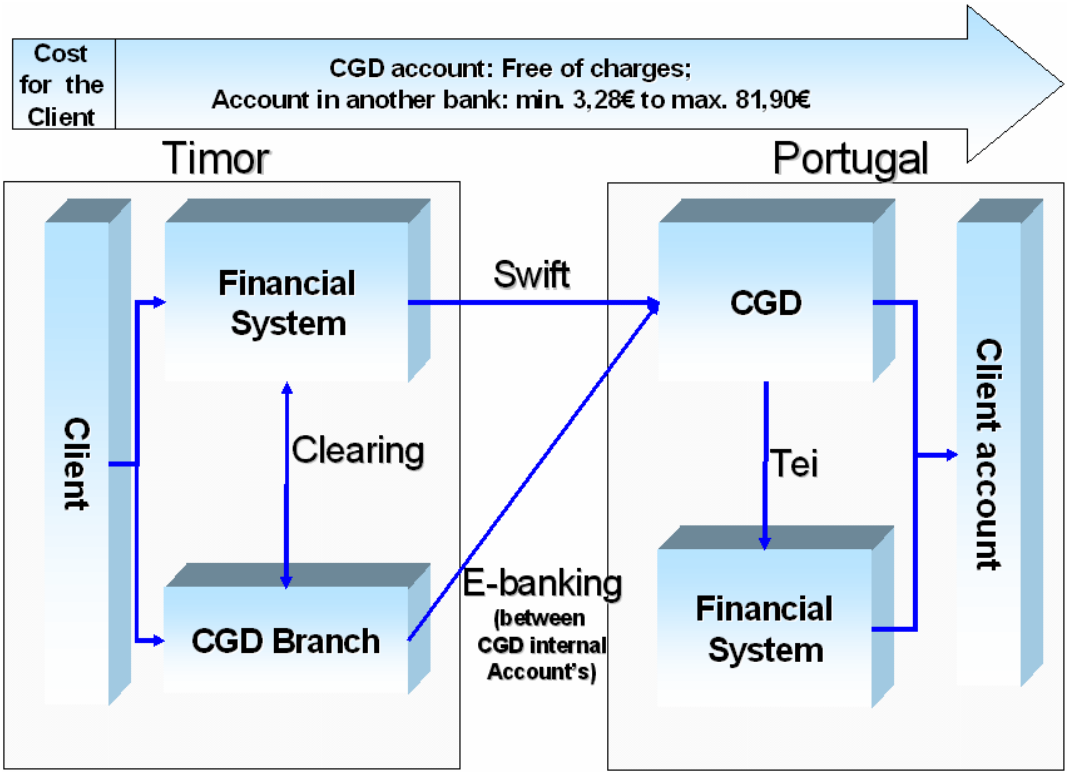
BAIXA DANNEIRA



Transfers : USA					
CGD			Banking System		
2001	2002	2003	2001	2002	2003
23.095	14.401	14.975	394.583	374.930	278.061

Unit: 10^6

Source: Bank of Portugal



Examples of competition

Caixa Económica Federal (Brazil)

Main purpose: Emigrant remittance of funds from Portugal to Brazil

Means: Internet current account

Requirements:

1. Being a Brazilian citizen
2. Being a resident outside Brazil
3. Having a CPF (personal fiscal number)
4. Visa credit card issued outside Brazil

Circuit:

1. The Brazilian citizen opens an electronic current account;
2. Inserts the registration in the internet banking service ;
3. Applies for the remittance service in order to credit directly his current account or a third party account in CEF; or
4. Requests a transfer to a deposit account ;
5. The administrator entity of the card authorises the transaction;
6. The cost of the transaction is debited in the client's credit card;
7. The account in Caixa Económica Federal is credited.

Medium time for the transfer: 2 days

Costs:

- Transfer to a current account: 2.58% rate
- Transfer to a deposit account: 2.45% rate (international market average rate 8.5%)

Monthly limit of remittances:

- 30.000 Reais

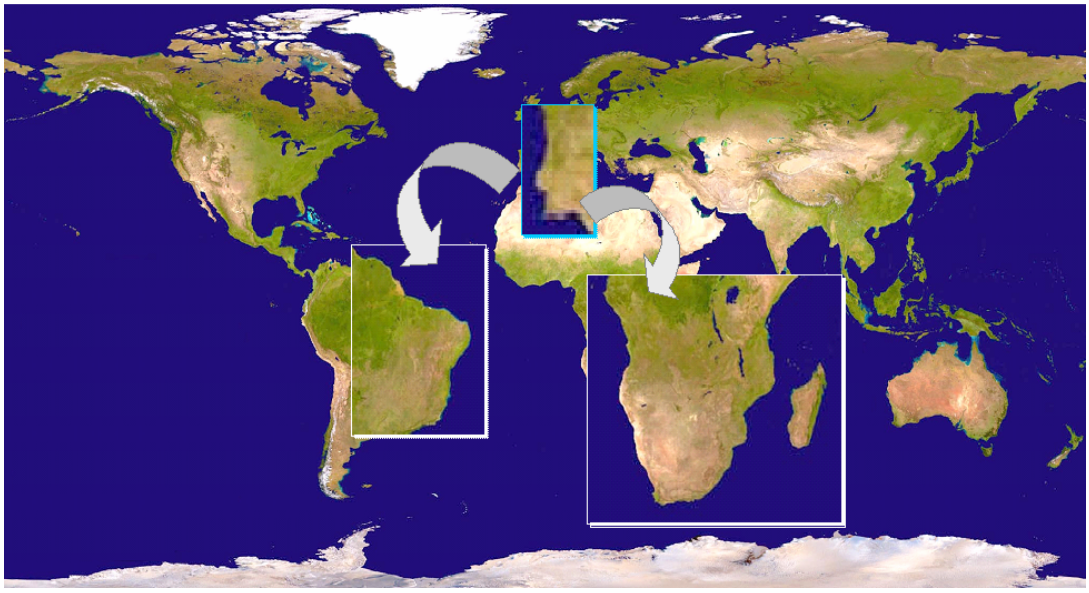
Correspondent bank in Portugal:

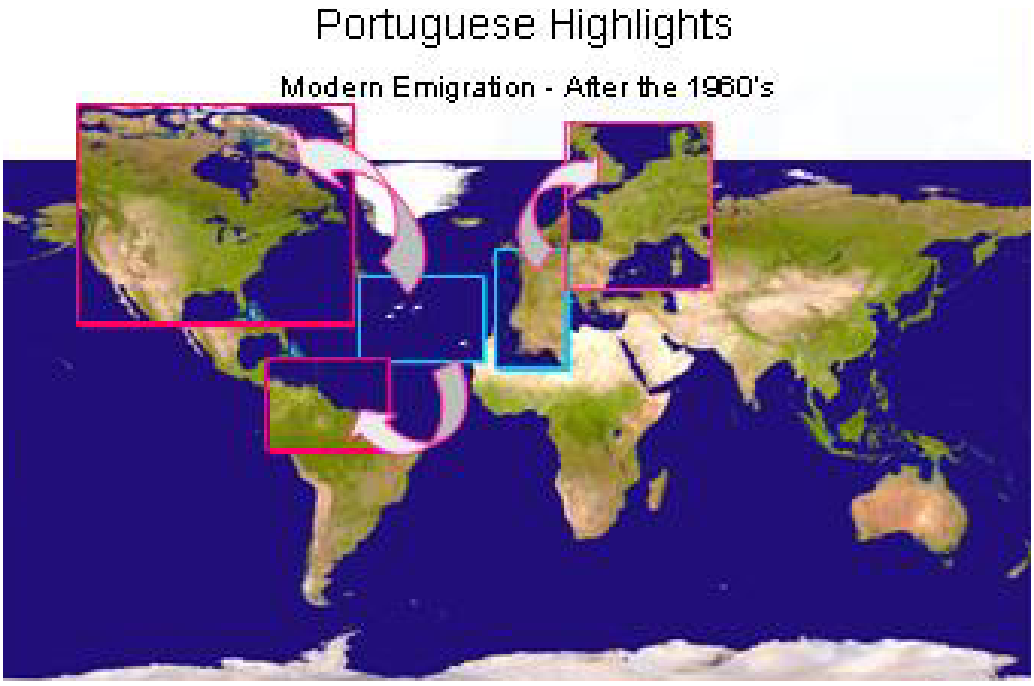
- Millennium BCP

PORTUGAL HIGHLIGHTS

Fact	Year
Kingdom of Portugal (foundation)	1143
Discoveries	1415
Dictatorship	1926-1974
Modern emigration	1950s
Colonial wars	1961-1974
Democracy	1974
Member of the EU	1986

Modern Emigration – till 1960's

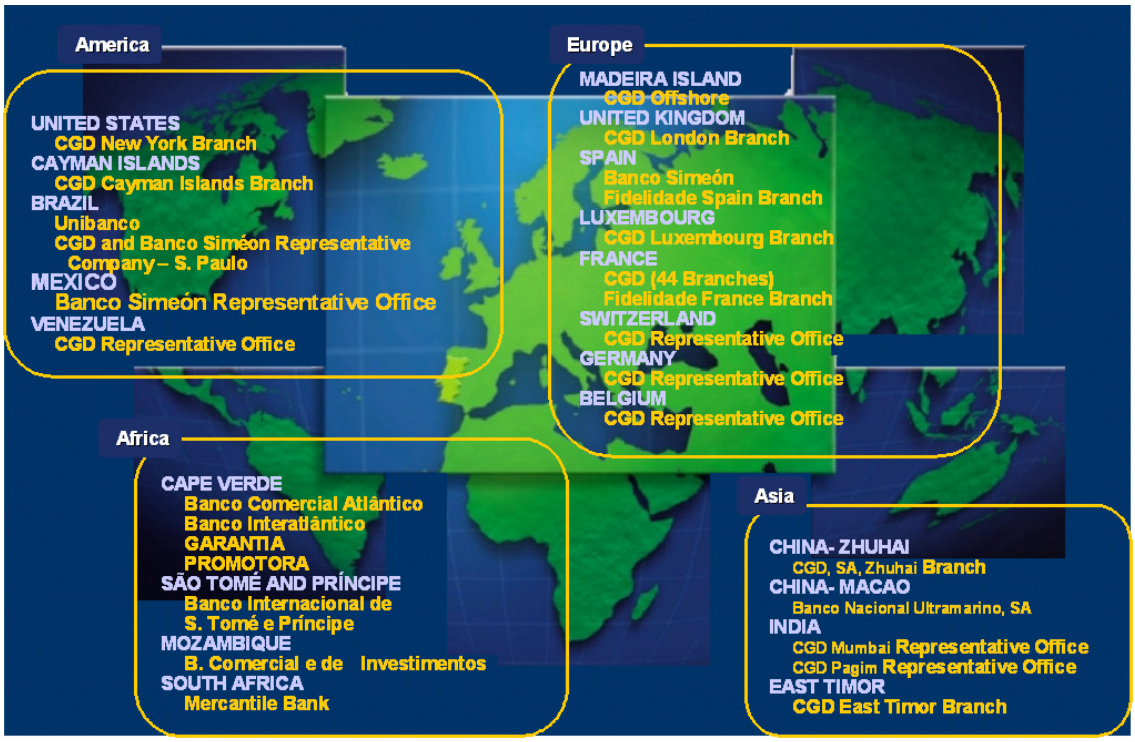




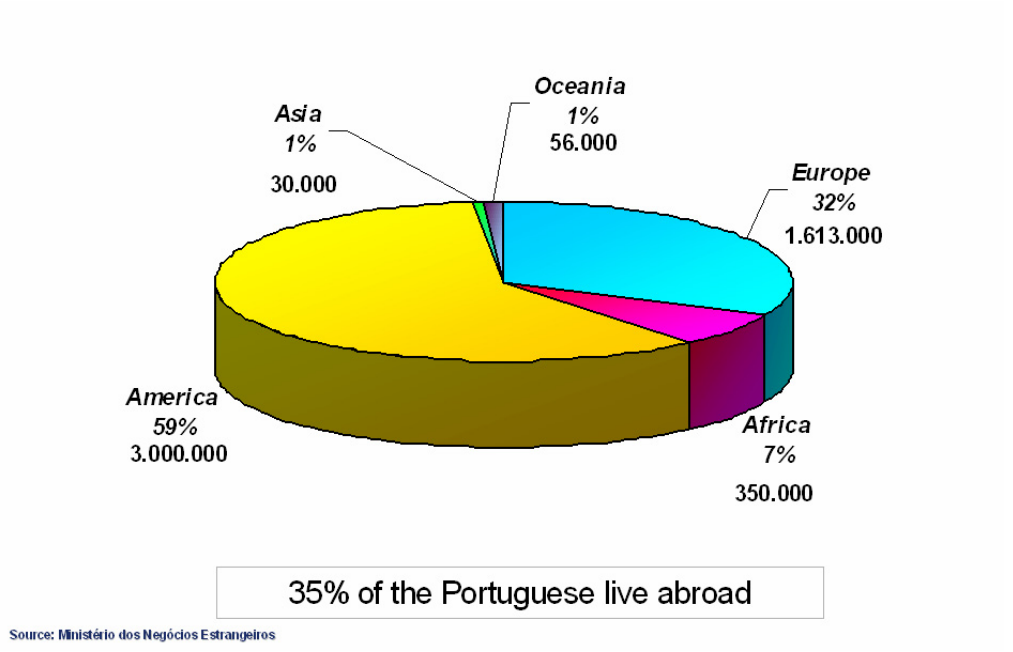
CGD in figures

Customers	5.772.417
Assets	EUR 71.790 millions
Ratings:	
Moody's Ratings:	Aa3
S&P	A+
Fitch	AA-
Branches (all over the world)	837
Non-residents deposits	EUR 5.567 millions

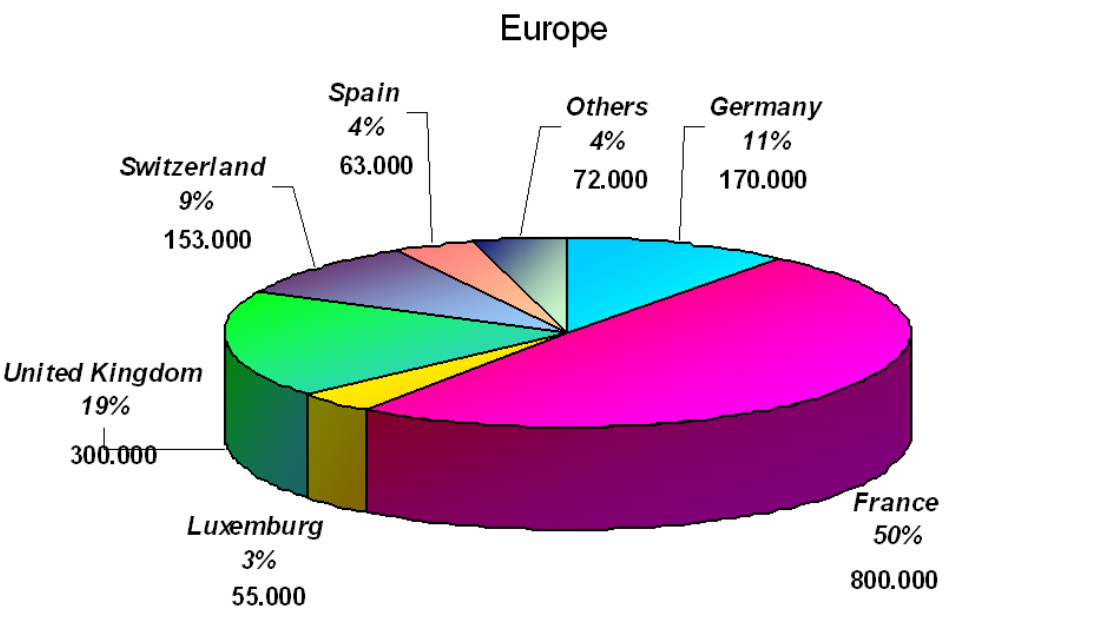
International presence



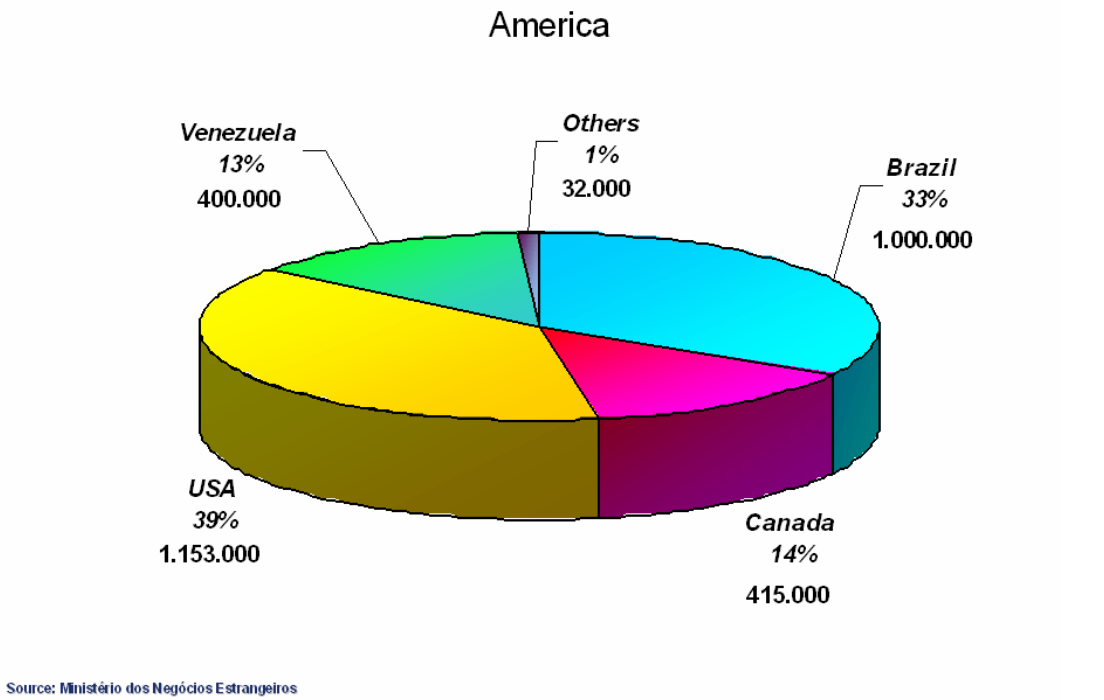
Portuguese emigration destinations



Portuguese emigration destinations

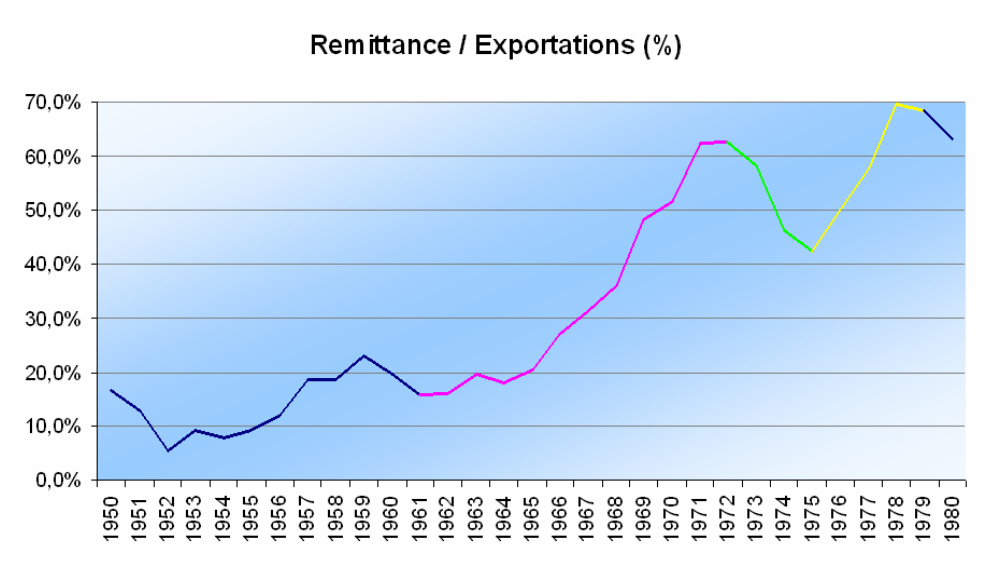


Source: Ministério dos Negócios Estrangeiros

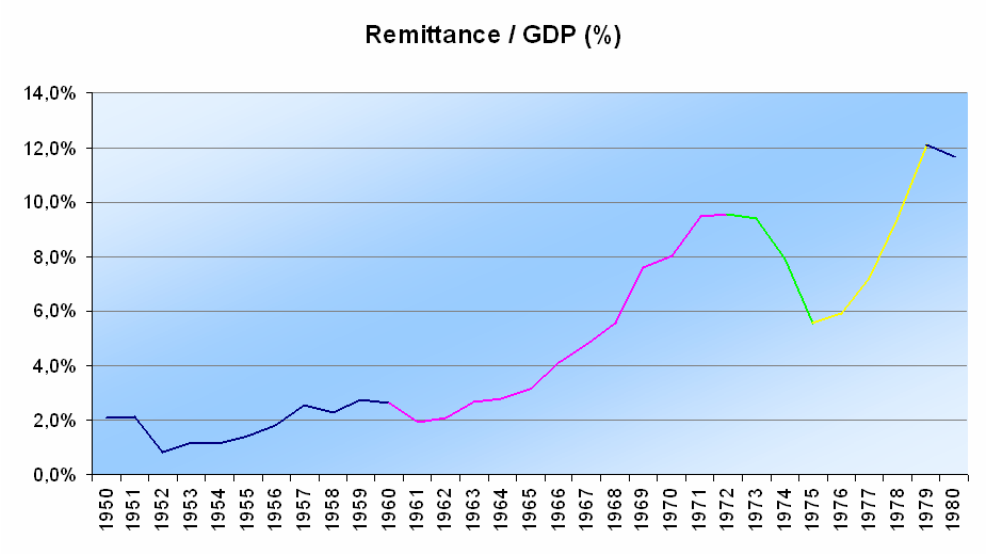


Source: Ministério dos Negócios Estrangeiros

Macroeconomic importance of emigration



Source: Instituto Nacional de Estatística.



Source: Instituto Nacional de Estatística.

Emigrant workers benefits: legal framework

From 1976 to 1985:

- Account currency: PTE (Portuguese Escudos)
- Reduced withholding tax for savings
- Reduced interest rate for mortgage loans and real estate
- Tax exemption for property acquisition (urban and rural)

After 1985:

- Account currency: multicurrency
- More benefits:
  - Reduced interest rate for all types of business loans (industry, tourism, etc)

CGD experience

Past – Emigrants as source of funding:

- Traditional products and services and mortgage loans
- All clients treated as equals – one size fits all

Products and services

Migrant Workers Savings System (Sistema Poupança Emigrante - SPE):

- Purpose: for urban or rural real estate acquisition construction, or improvement and for industry, fishing and agricultural development
- Conditions:
  - The balance of the special account must remain for at least 6 months
  - Loan amount cannot exceed 90% of the property valuation
  - At least 25% of the balance has to be used in the purchase (investment)
- Amount limits:
  - The double of the emigrant workers special account balance (max. EUR 150.000,0)
- Interest rate: 25% subsidised
- Currency: Euros or foreign currency
- Term: 20 years

Mortgage loans (non subsidised):

- For urban or rural real estate acquisition construction, and investment
- For clients with income in foreign currency
- Foreign currency: USD, CAD, GBP and CHF

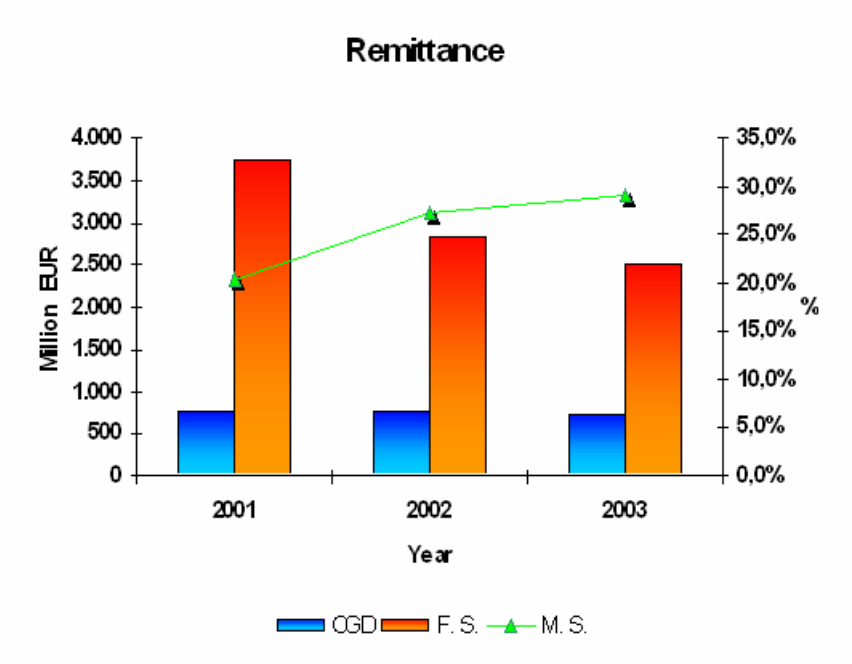
- Term: 15 years
- Interest rate: according to currency and risk (marked rates)

Special accounts:

- Investment Project Savings Account (Conta Poupança Projecto)
  - Term deposit account. All credits mature at the same time;
  - Maturity: 6 months (from 1st delivery);
  - For clients up to 30 years-old;
  - Interest Rate: according to maturity. After the 2nd year: interest rate + 0,0625% / year (max. 5 years);
  - Withholding tax: 11,5% (for emigrant workers)

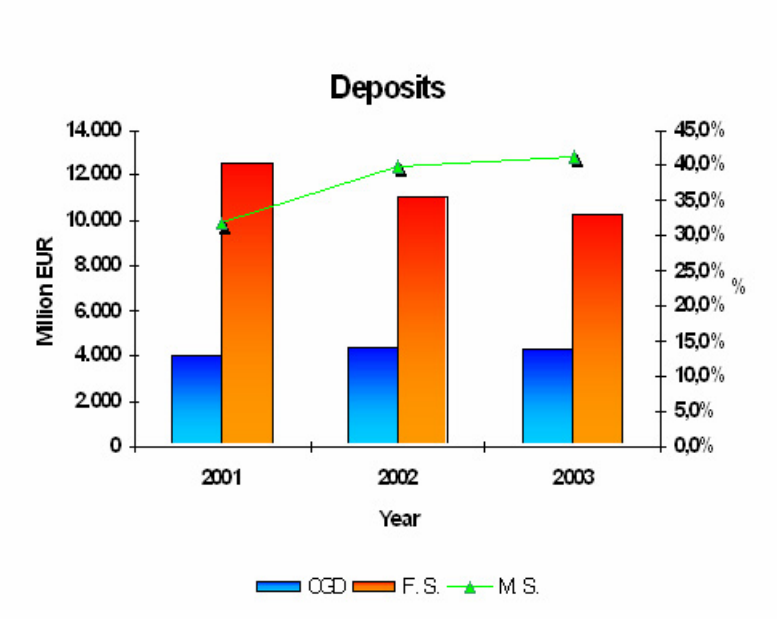
With this account, a client may use SPE or another loan type.

Market share remittances

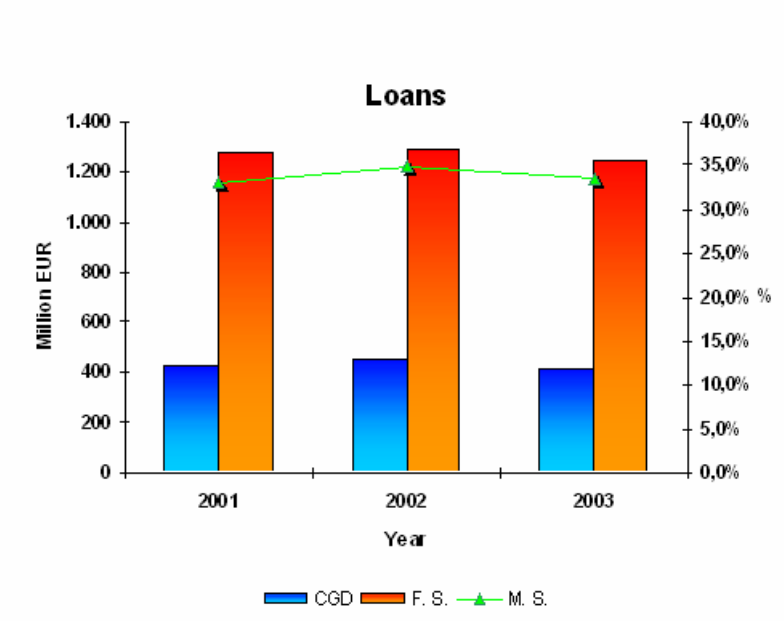


Source: Banco de Portugal.

Market share deposits



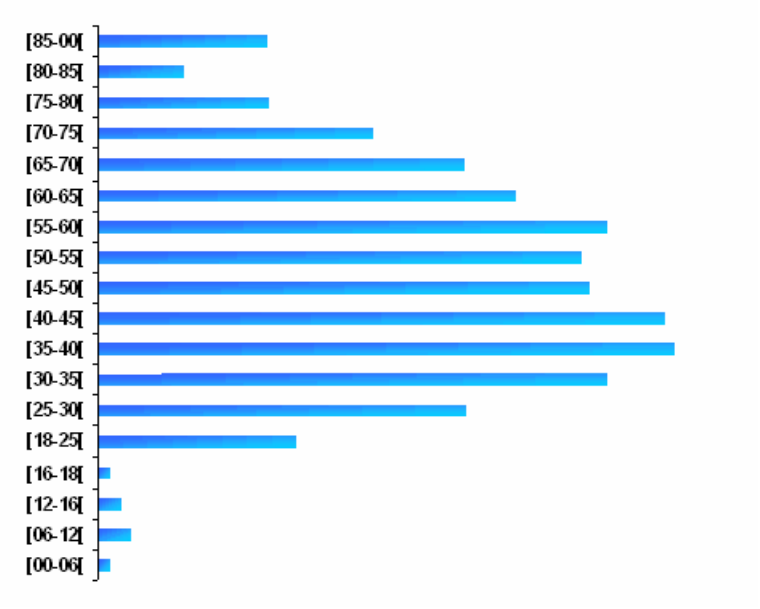
Market share loans



Source: Banco de Portugal.

Present and future – Customer centric strategy

- Emigrants are segmented by markets and social – demographics
- Customer life cycle



Source: CGD, 30.06.2004.

- New needs and expectations:
  - Investments (equity, fixed term, etc.)
  - Business loans
  - Financial planning

The future

Threatening environment:

- Uncertain future
- Increased competition
- Euro
- EU savings directive

Our answer

To deliver products and services capable of improving the quality of life of our citizens working abroad, and the preservation and growth of their wealth.

ANNEX II.2

LES PRODUITS ET SERVICES FINANCIERS DESTINÉS AUX MAROCAINS RÉSIDANT À L'ÉTRANGER*

by

Laïdi El Wardi and Mustapha Khyar,
Central Popular Bank of Morroco

Groupe Banques populaires : positionnement du Groupe

Le Groupe Banques populaires est le leader des activités de distribution de proximité au Maroc et occupe des positions de premiers plans acquises de longues dates par les Banques populaires régionales :

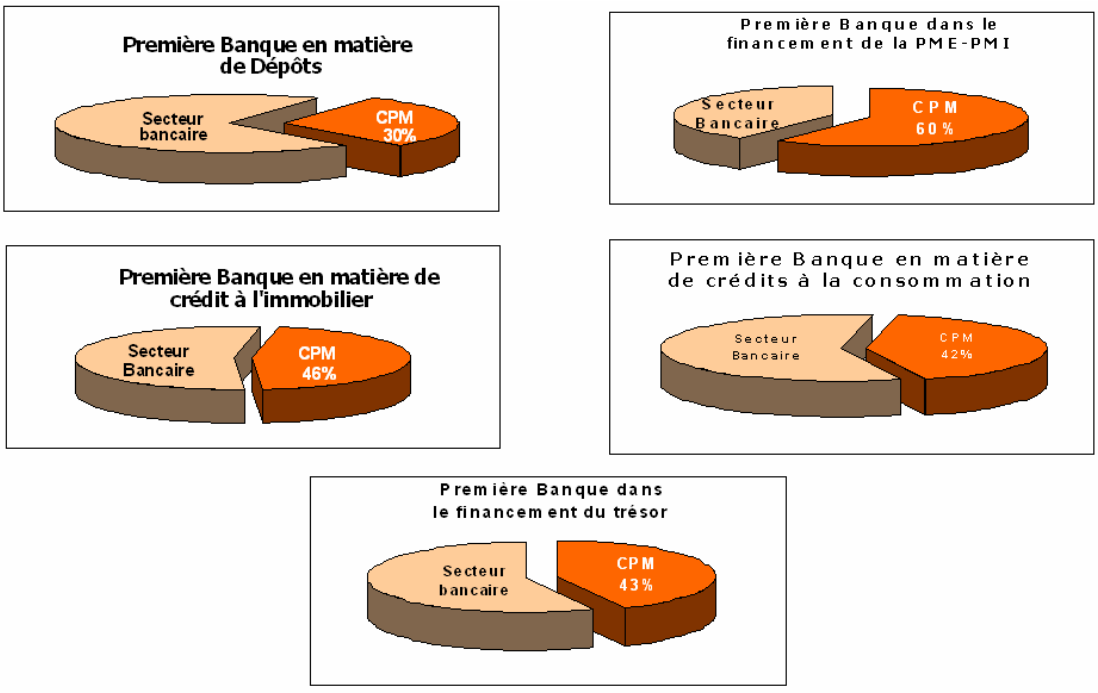
- 24% du réseau d'agences bancaires au Maroc ;
- 27% du réseau national de guichets automatiques bancaires ;
- 29,93% des dépôts bancaires ;
- 60% des dépôts des Marocains résidant à l'étranger (MRE) ;
- 22.39% de crédits à l'économie.

Principaux indicateurs de l'exercice 2003

(EN MILLIONS DE DIRHAM)	DECEMBRE 2003
TOTAL BILAN	95 053
RESSOURCES GLOBALES (dont plus de 50% sont des dépôts MRE)	82 043
TOTAL EMPLOIS	81 883
FONDS PROPRES	8 837
PRODUIT NET BANCAIRE	4 568
BENEFICE NET	765
NOMBRE D'AGENCES	458
NOMBRE DE GAB	358
NOMBRE DE CLIENTS (dont plus de 670.000 clients MRE)	2 092 443
RATIO COOKE	21,70 %

* This annex is a Power Point presentation made by the authors in French only.

Positionnement du Groupe Banques populaires



Les transferts de fonds des Marocains résidant à l'étranger (MRE) : l'opération de bancarisation

Le Groupe Banques populaires a joué et joue un rôle de premier plan dans le processus de rapatriement de l'épargne des marocains résidant à l'étranger.

Pour capter cette épargne salariale, il a menée des campagnes de bancarisation qui ont été facilitées par :

- L'implantation de points de contact de proximité dans les principaux pays d'accueil ;
- La mis en place des mécanismes de transferts s'appuyant sur les réseaux bancaires et postaux étrangers ;
- L'implantation d'agences bancaires au Maroc dans les localités d'origine des migrants.

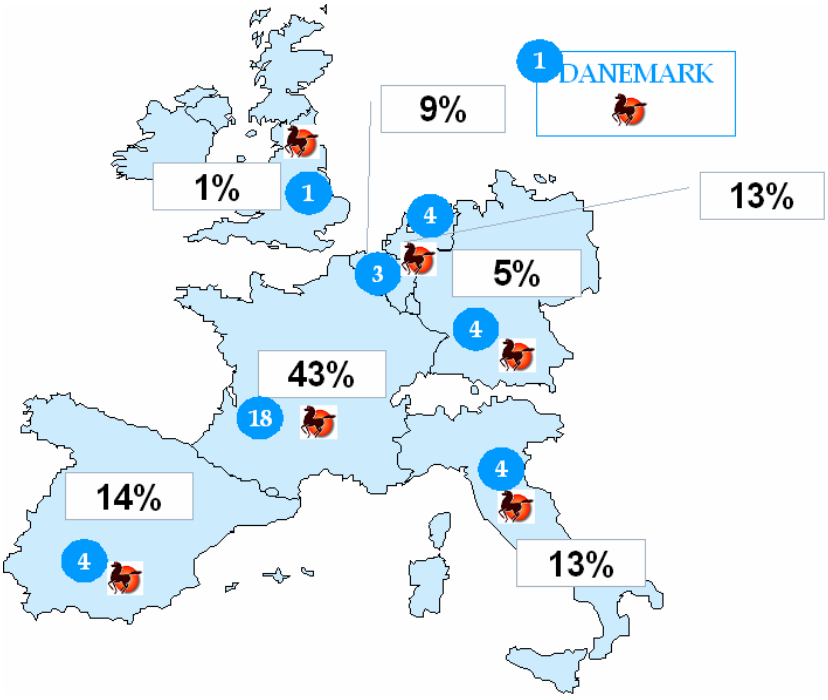
Les transferts de fonds MRE : l'implantation des banques marocaines à l'étranger

Le réseau commercial de proximité du Groupe Banques populaires à l'étranger est composé de près de 47 points de contact couvrant les points de forte concentration des marocains dans le pays d'accueil :

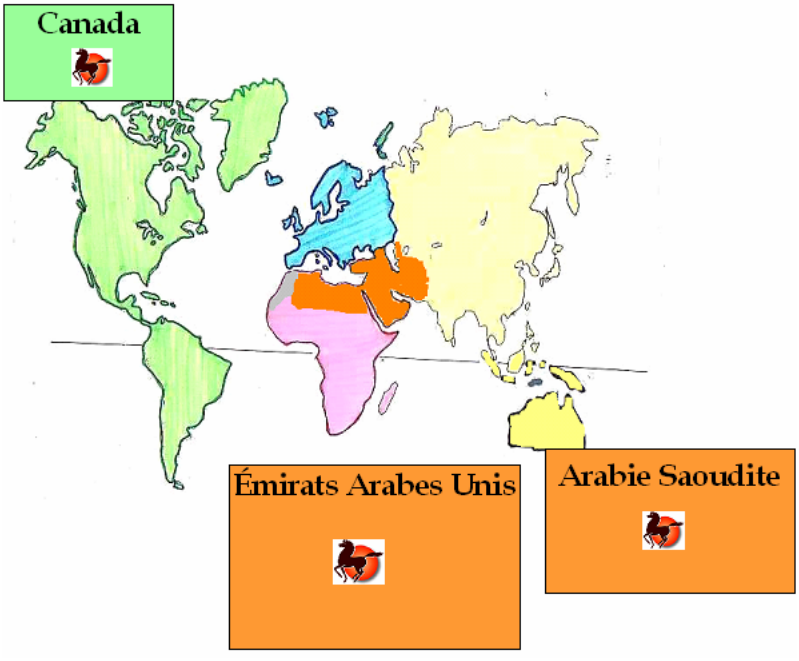
- Des bureaux de représentation ;
- Une agence de transfert de fonds ;
- Une filiale bancaire de droit français avec trois agences.

La mission principale de ces points de contact est de prescrire l'offre en produits et services des banques marocaines auprès des migrants, et de promouvoir les canaux et circuit de transfert d'argent mis en place par les banques.

Les transferts de fonds des MRE : l'implantation en Europe



Les transferts de fonds MRE : l'implantation hors Europe



Source : Analyse documentaire, données 2004.

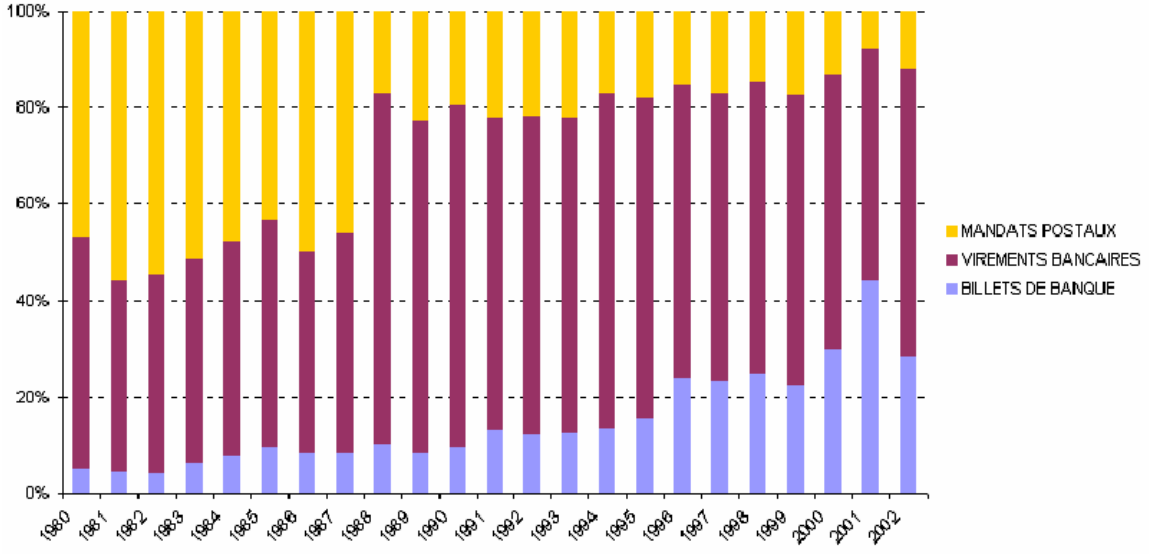
Les transferts de fonds des MRE : les canaux de transfert

Les migrants marocains utilisent cinq mécanismes de transferts financiers :

1. Les transferts par **virement de compte à compte** qui s'appuient sur les techniques d'échanges interbancaires électronique (SWIFT, échanges de données informatisés, etc.), délai : **2 à 4 jours**, coût = **4 à 5€**.
2. Les transferts par **dépôt d'espèces sur un compte** qui utilisent le réseau des Postes. C'est le mode de transfert d'argent privilégié des marocains résidant en France et en Allemagne, en raison de sa simplicité et de son coût relativement bas (coût : **2,60€** par transaction, délai : **4 à 6 jours**).
3. Les **mises à disposition d'espèces** proposées par des organismes tels que Western Union et MoneyGram, mais également par des entités informelles.
4. Le **change manuel** ou le dépôts de devises en billets de banque sur un compte bancaire au Maroc.
5. Les mandats postaux.

Les transferts de fonds des MRE : les résultats de cette première opération

- Une multi-bancarisation relativement forte entre un établissement du pays de résidence et le Maroc comprise entre 60% (Italie) et 80% (France).
- Une bancarisation uniquement dans un établissement du pays de résidence qui reste modérée autour de 20à 25% et plus particulièrement de l'Italie (~10%).
- Les virements bancaires constituent le moyen privilégié des MRE pour effectuer leurs transferts (plus de 53% en 2003).



Les transferts de fonds des MRE : la mise en place d'une offre de produits et services bancaires dédiée

Des prestations spécifiques pour la gestion du compte :

- Avis d'opération à chaque opération de transfert
- Franchise pour les retraits déplacés
- Cartes bancaires

Produits de placement d'épargne défiscalisés :

- Plan Epargne Logement (dès le début des années 70)
- Dépôts à vue rémunérés
- Dépôts à terme taux d'intérêts préférentiels par rapport aux résidents
- Epargne–retraite complémentaire
- Rente éducation pour les enfants et parents restés au Maroc
- FCP

Produits de financement :

- Prêt immobilier à taux bonifié
- Crédit à la consommation au Maroc

Produits d'assistance :

- Assistance technique et médicale pendant le voyage de retour
- Rapatriement des corps en cas de décès
  - Indemnités obsèques
  - Remboursement des frais de voyages et de séjour de l'accompagnateur

Un réseau de distribution dédié :

- Agences spécialisées
- Horaire adapté pendant les vacances d'été

Et récemment :

- Compte en dirhams convertibles avec la garantie de re-transfert
- Compte en devises avec la garantie de re-transfert, sans risques de change

Les transferts de fonds des MRE : les singularités du Groupe

Banques mutualistes :

- 450 000 sociétaires sont la moitié sont des MRE

Fondation Banque populaire pour la culture et l'éducation :

- Deux écoles pour les enfants des MRE (à Tanger et à Agadir)
- Organisation de manifestations culturelles dans les pays d'accueil

Fondation Banque populaire pour le création d'entreprises :

- Accompagnement des créateurs d'entreprises et investisseurs

Les transferts de fonds des MRE : les nouveaux produits et services bancaires mis en œuvre

Bancarisation :

- Opération menée conjointement avec les partenaires bancaires européens

Transfert :

- Services de transfert par carte bancaire auprès des guichets automatiques des partenaires

Mobile banking :

- Consultation du solde du compte par SMS en mode « push-pull »
- Consultation du cours d'une valeur boursière
- Information SMS sur les opérations imputés au compte en mode « pull »
- Envoi d'alertes SMS sur le fonctionnement du compte, etc.

Internet banking :

- Suivi des comptes (solde, relevé, etc.)
- Suivi du portefeuille titres
- Demandes de chéquiers
- Ordre de virement de comptes à compte
- Simulations de prêts
- Simulations d'épargne
- Réclamation

Les transferts de fonds des MRE : les nouveaux produits et services bancaires en cours de développement

Mobile banking :

- Transfert de fonds
- Transactions de gestion du compte

Internet banking :

- Transfert par carte bancaire :
  - MoneySend,
  - Visa Direct,
  - Etc.

Offre dédiée à la famille et aux parents restés au Maroc :

- Assurances maladie–hospitalisation
- Prêts immobiliers
- Cartes bancaires prépayées

Création de Fonds éthiques et caritatifs

Offres co–brandées avec les partenaires étrangers

ANNEX II.3.

SENDING MONEY HOME: REMITTANCES AS A DEVELOPMENT TOOL IN LATIN AMERICA AND THE CARIBBEAN

by

Pedro de Vasconcelos,
Inter-American Development Bank, New York

The Multilateral Investment Fund (MIF)

Origin and mission

The MIF was created in 1992 with the goal of promoting and strengthening the private sector in LAC.

The MIF provides grants for technical assistance in the following areas:

- Regulatory framework for the private sector
- Human resources development
- Micro-SMES enhancement

MIF also invests in SMES through its investment fund facility.

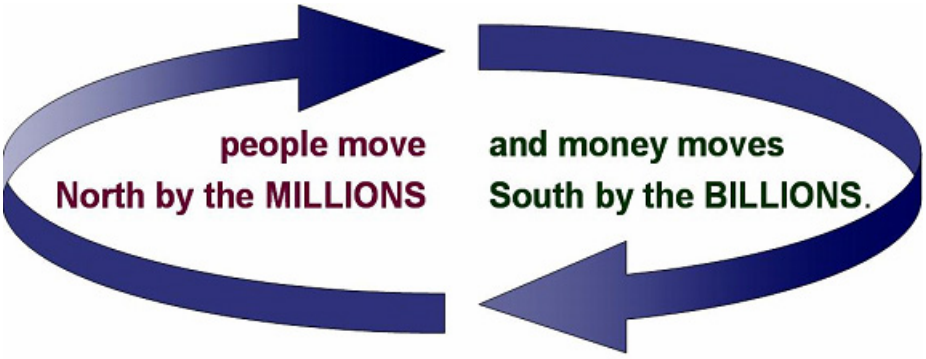
Remittances as a development tool in LAC

1. Background on remittances
2. Challenges ahead and MIF strategy
3. MIF projects and initiatives
4. New areas for MIF financing

Background: migration trends

Remittances are the traditional financial support for families back in they home countries.

This phenomenon is generated by a movement of labor across borders that constitutes an international labor market in which



The migration phenomenon does not only reflect migration on a North/South pattern but also movements both within the Region, and other parts of the world as well.

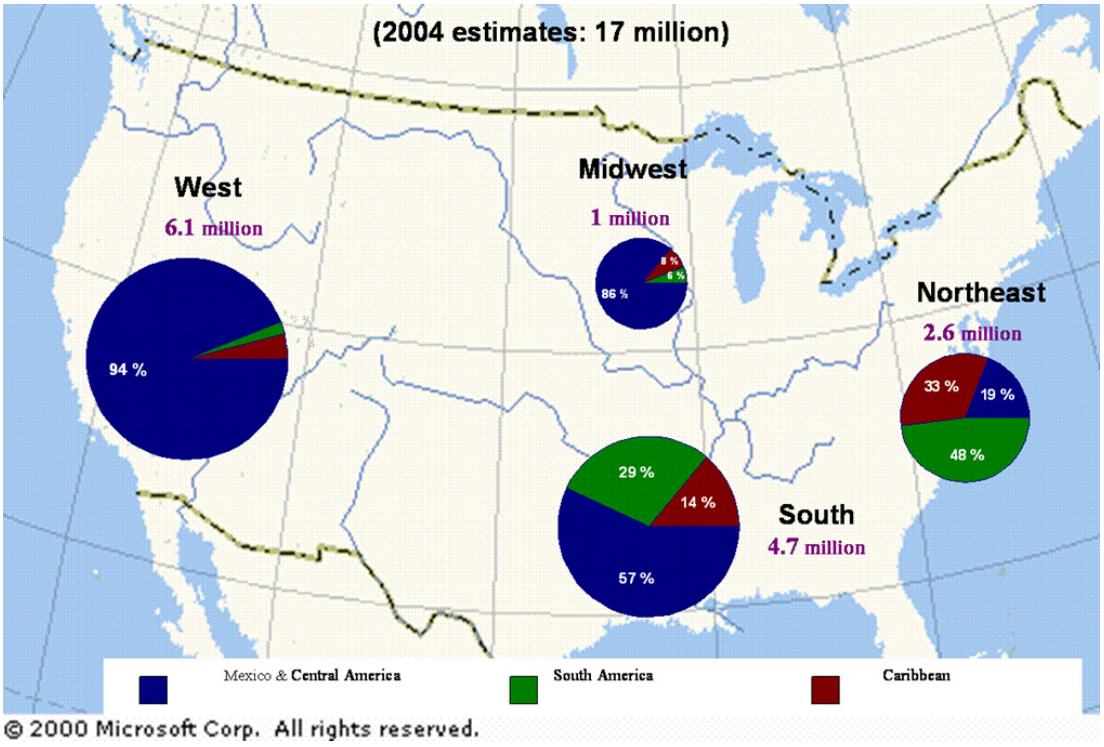
There are now significant communities of Bolivian migrants in Argentina, Nicaraguans migrants in Costa Rica, Guatemalans in Mexico, Peruvians in Chile, and Haitians in the Dominican Republic.

However, for the last two decades the preferred destination for the over-whelming majority of Latin American and Caribbean migrants has been North America, and in particular the United States.

According to the 2000 U.S. Census, approximately 5% of the U.S. population (or some 14.47 million people) emigrated from LAC countries.

Recent estimates put LAC born population at about 17 million.

LAC foreign-born population: 14.7 millions (Census EE.UU.2000)



Background: volume of remittances

Remittances constitute a critical flow of foreign currency in Latin America and the Caribbean.

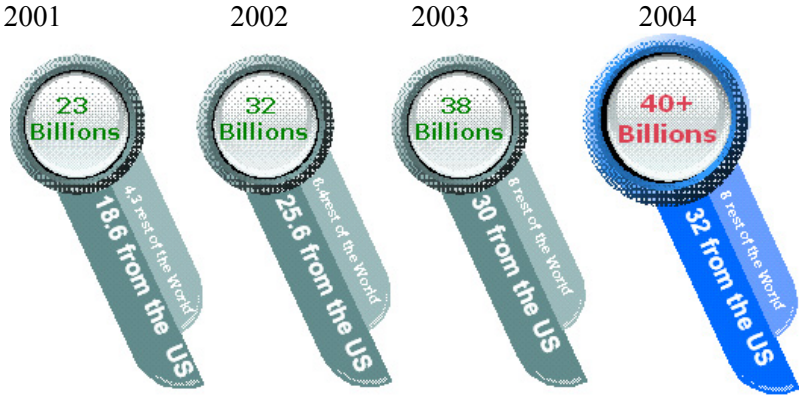
The implications for national economies – and the corresponding multiplier effect on GDP, consumption and investment – are significant. The remittance issue is becoming a major financial and development topic throughout the region.

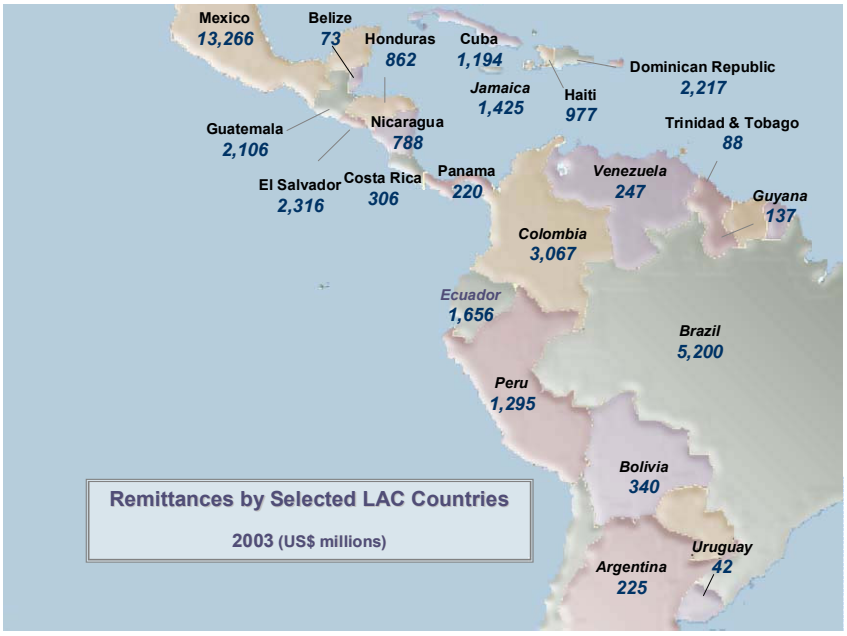
LAC is both the fastest growing and highest volume remittance market in the world.

This is no cause for celebration, however. It means that the Region is not producing enough employment to meet the needs of its population.

As migration patterns increase and reporting mechanisms from central Banks improve, remittance flows to LAC for the year 2003 reached over USD 38 billion from all parts of the world implying 180 million transactions a year

Worker remittances flows to Latin America and the Caribbean

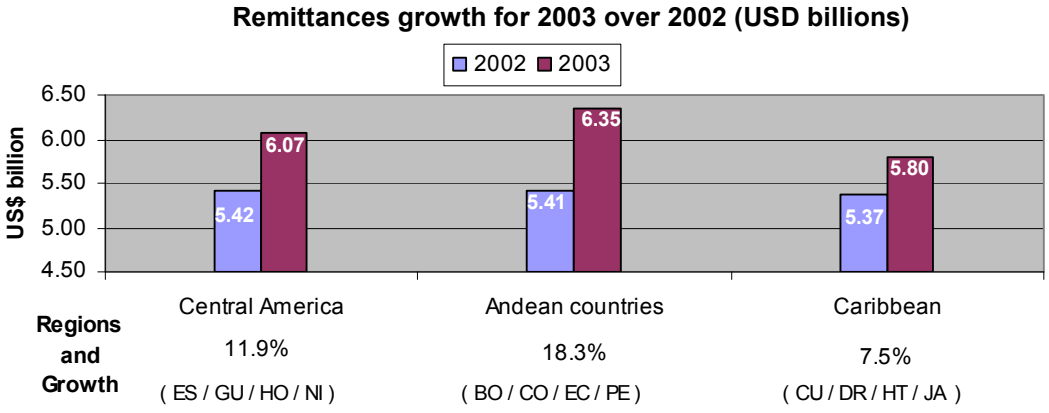


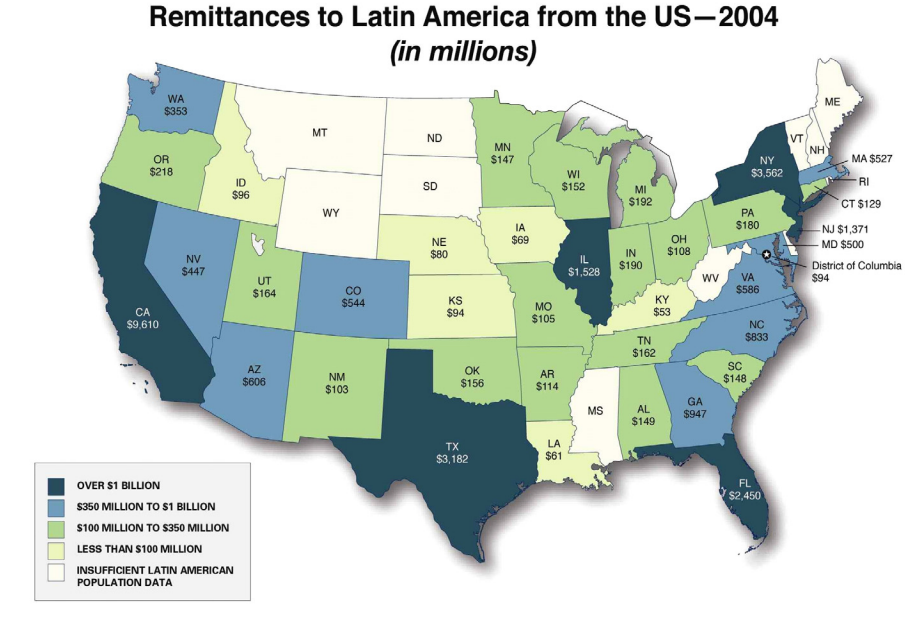


Comparative IDB studies of 19 LAC countries show that remittances:

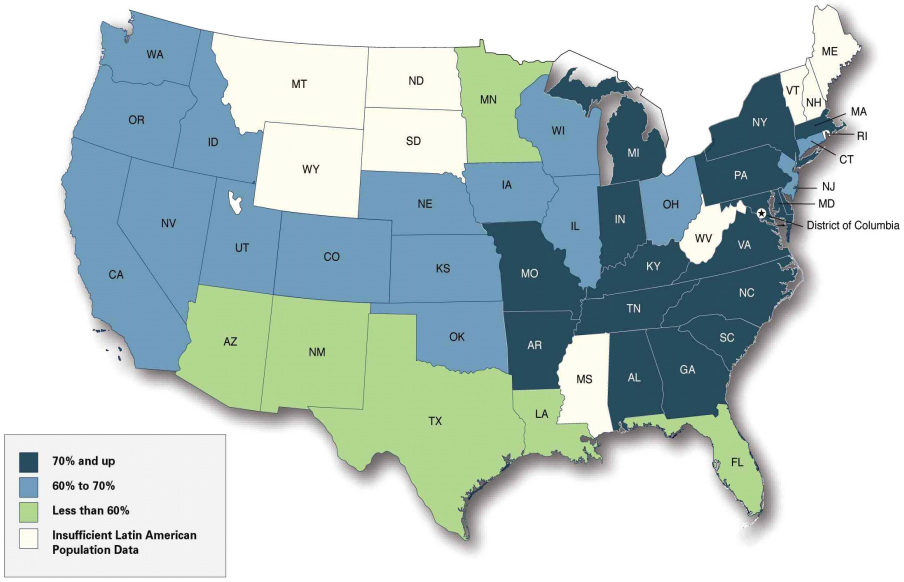
- substantially exceed of Official Development Assistance (ODA) inflows to each country;
- equal more than 150% of the interest paid on the total LAC external debt during the past five years;
- account for at least 10% of gross domestic product (GDP) in six countries: Haiti, Nicaragua, El Salvador, Jamaica, the Dominican Republic, and Guyana.

Individual regions such as Central America, the Caribbean, and Andean countries all report consistent increases in remittances, which reflect the growing integration of labor markets between LAC and the rest of the world.





Percentage of Immigrant Adults that send Remittances Regularly



If migration patterns continue at current levels, the importance of remittances to the region will also grow significantly

At current growth rates, the projected cumulative remittances to Latin America and the Caribbean for the decade (2001-2010) will approach USD 500 billion

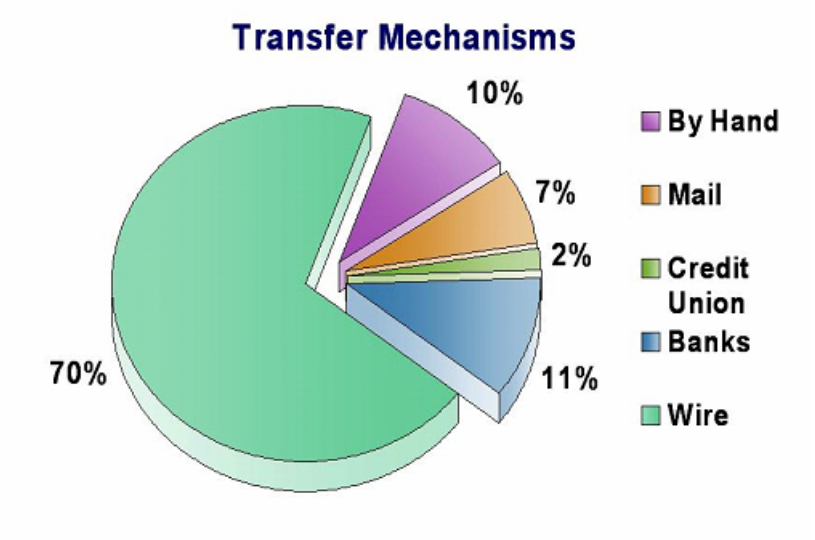
Background: remittances senders

A 2004 MIF study found that over 60% of adult, foreign-born Latino people living in the U.S. send remittances regularly and about another 10% send remittances occasionally.

Two-thirds of remittance senders dispatch money at least once a month, and the most recently arrived (those in the United States less than five years) are the most frequent remitters with three-quarters sending money at least once a month. Most remitters dispatch between USD 200 and USD 300 at a time.

Background: transfer mechanisms

Wire transfer companies such as Western Union or Money Gram remain by far the most common means of dispatching remittances with 70% of senders reporting that they use such firms.



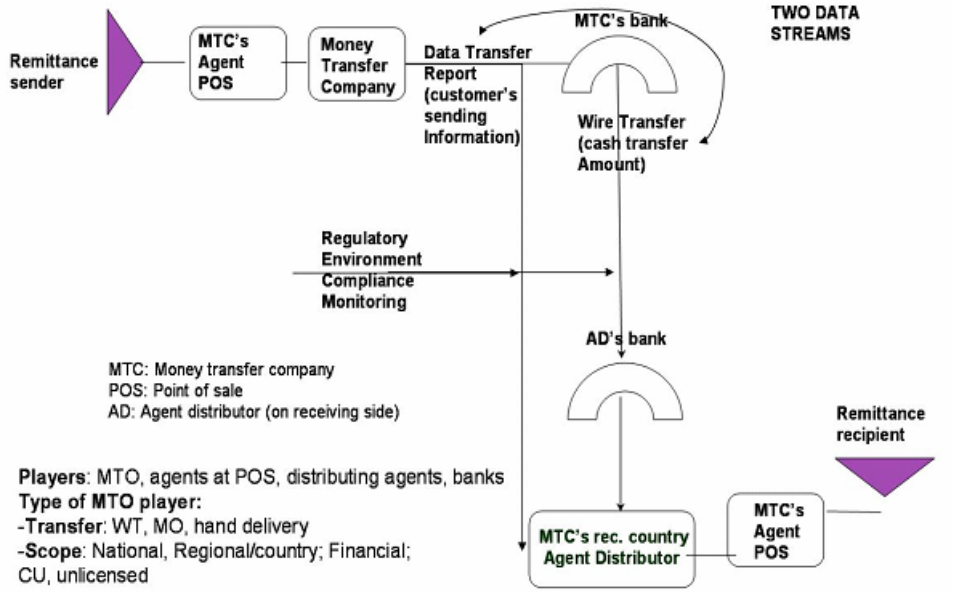
Background: remittances receivers

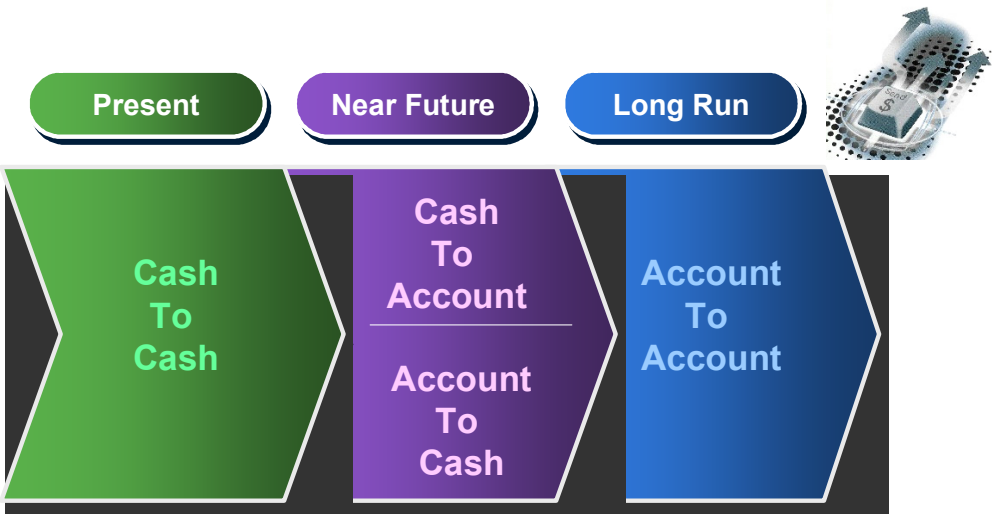
Extensive nationwide public opinion surveys showed that from a low of 14% in Ecuador to a high of 28% in El Salvador, significant portions of the adult population reported that they personally received remittances from a family member living abroad.

About half of remittance recipients earn between USD 250 and USD 500 a month while that segment makes up a little more than a quarter of the population.

In all of the surveys, clear majorities of remittance receivers said they used the funds to pay for common expenses such as food, housing and utilities.

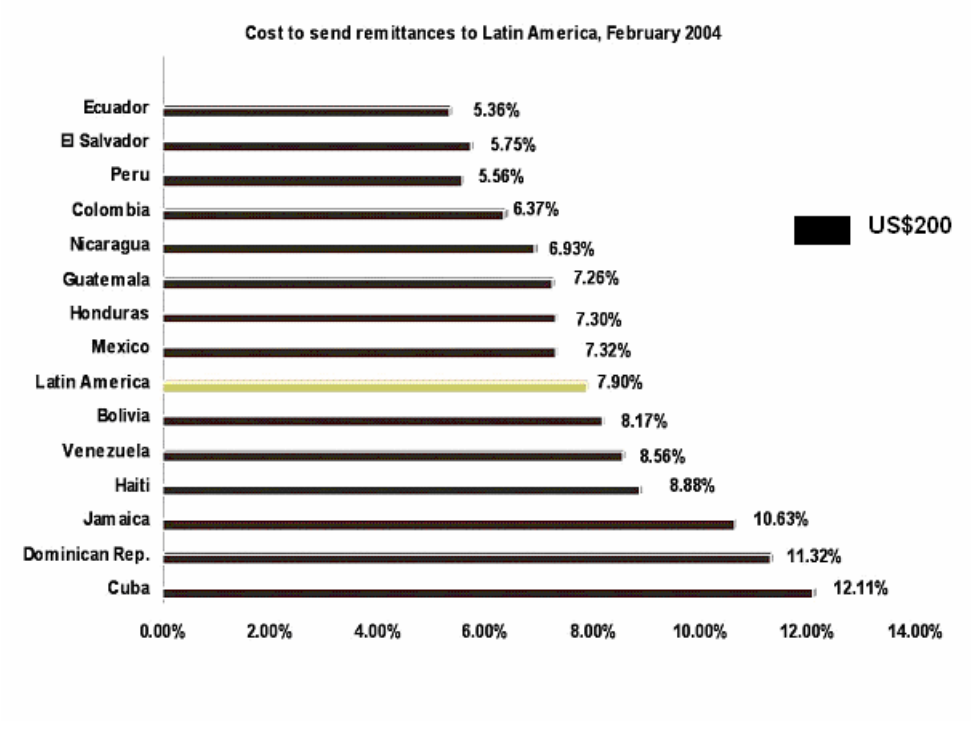
Background: international transfer operation





Background: cost of transfer

- Until recently the remittances market in LAC countries was composed by only a small amount of major institutions and several small players.
- Before 2000, the average cost of sending remittances to LAC was about 15% of the value of the transaction.
- This reflected a lack of transparency/maturity/and competition in the remittance transfer market in an era of electronic transfer of resources.



- Nevertheless, in recent years, the remittance industry has become more transparent and competitive.
- As a result, transfer costs continue to decline. In February 2004, the average cost was 7.9% or USD 16 for sending USD 200.
- This reduced average, when compared with fees five years ago, is mostly due to the fact that charges have decreased with greater competition and use of technology.
- Remitters to Mexico, El Salvador, and Guatemala charge lower fees than companies sending money to Jamaica and the Dominican Republic where competition is less robust or "controlled".
- For other countries, like Cuba or Haiti, where market restrictions are even tighter, charges are generally the highest.

Background: international comparison

It is estimated that annual worldwide remittances may amount to 180 hundred billion dollars, primarily sent from the industrial to the developing world.

Three significant findings were reported:

- Latin America is the region receiving the most remittances;
- transfer costs are lowest when remittances are sent through regulated financial institutions, such as banks, credit cooperatives, and credit unions;
- the average cost of remitting to countries outside Latin America was cheaper than remitting to Latin America.

Background: market context



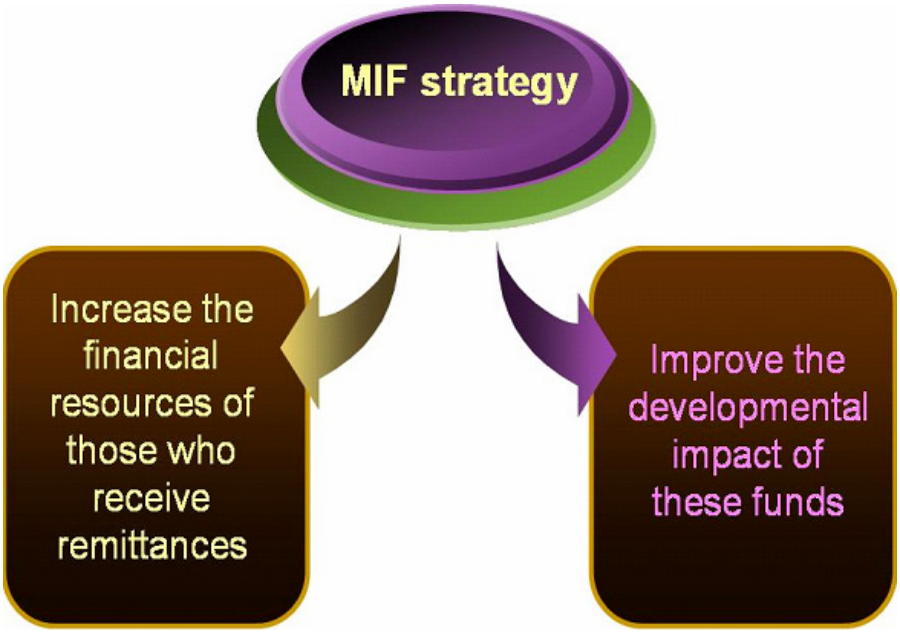
Challenges ahead and MIF strategy

Because of the recent growth of remittances to LAC, the MIF of the IDB began four years ago to commission studies, sponsor conferences, and finance projects in order to help:

1. Document the increasing importance of remittances to the Region.

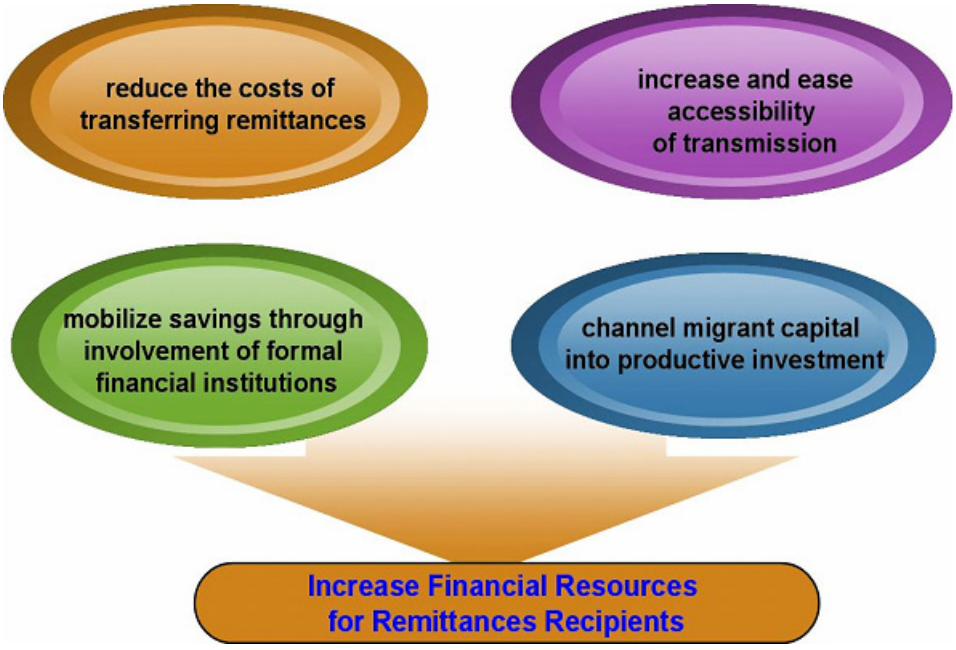
2. Lower transaction costs by promoting competition, and encouraging innovative technologies.

3. Leverage the development impact of remittances, once received.

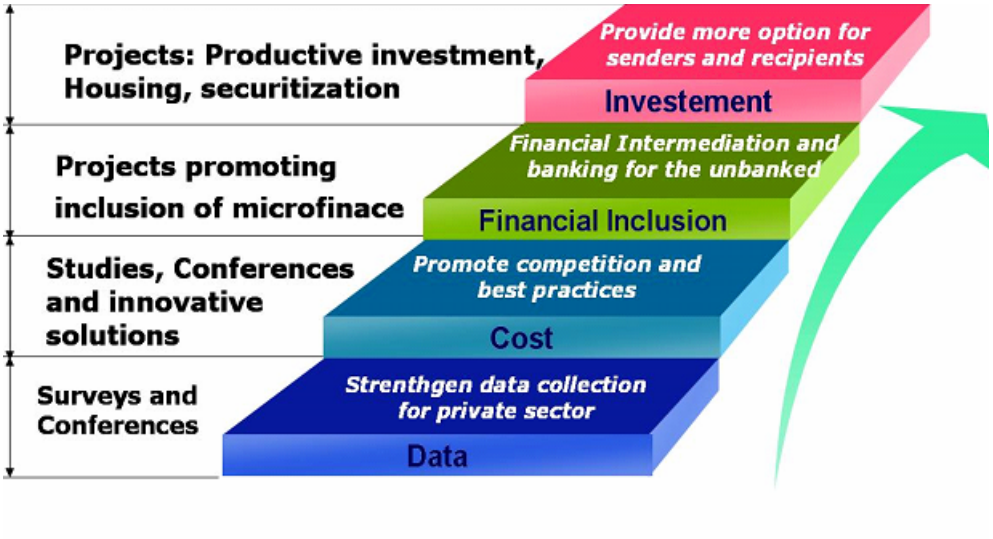


To achieve these objectives the MIF is disseminating information and funding projects that:





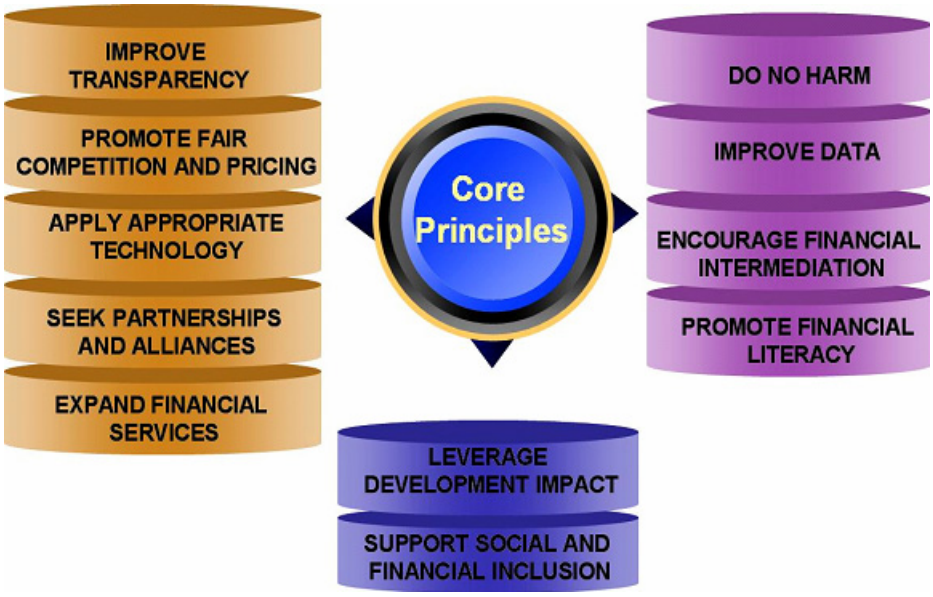
Levels of activities



In order to help organise and focus priorities for this collective effort, MIF has also issues a set of Core Principles promoting best practices within the LAC remittance market.

These Core Principles are aimed at:

- Remittances institutions;
- Public authorities;
- Civil society.



Governments, international organisations and other institutions must design their programmes in order to develop and support policies and programmes to help increase the multiplier effect of remittances.

However one central principle should be in mind: "It's their money".

If these efforts are successful, transnational families will have more money available for their own purposes, and they will be empowered with more options in using those resources.

In the coming years, IDB will work with a network of participating stakeholders to help reach two goals by 2010:



MIF projects and initiatives

To date MIF has implemented 14 projects in three categories:

1. Regulatory framework (public sector) regional initiatives.

2. Financial intermediation/Banking & Housing (Mexico, Ecuador, Colombia, Dominican Republic, Bolivia).

3. Productive investment of migrant capital (Brazil, Peru, Mexico).

MIF projects: examples

Regional programme

Strengthening microfinance institutions through remittance transfers.

Objective: link remittances sent from the United States with microfinance institutions in LAC.

Partner: Centro Acción/Acción Internacional.

Activities: promote the participation of microfinance institutions (MFIs) in the delivery of remittances as a way to reduce transfer costs and increase the access of recipient household to financial services.

Ecuador

Promoting migrant remittances from Spain.

Objective: Support *Banco Solidario*, a leading regulated microfinance institution that entered the remittances market, to receive remittances from Spanish Credit Unions.

Partners: Banco Solidario (Ecuador) CECA (Spain).

Activities: finance technical infrastructure, training and marketing support needed to establish partnership with Spanish Credit Unions.

Brazil

Venture capital fund for returning entrepreneurs from Japan.

Objective: Creation of the Brazilian Remittance Fund project to promote entrepreneurial activities by those Brazilian temporary workers overseas – or *dekassegui* - who desire to start businesses upon their return to Brazil.

Partner: SEBRAE – Banco do Brasil.

Mexico

Working with hometown associations to promote investment of remittances.

Objective: promote productive activities of mostly agribusiness-related economic groups established primarily by female workforce in the migration-affected rural areas of Mexico.

Partner: Fundación de Productividad en el Campo (FDPC).

Activities: address the lack of business skills, market and information access, and critical seed capital financing in rural communities in the states of Guerrero, Oaxaca, and Michoacán.

Housing finance facilitation for remittance recipients.

Objective: increase the efficiency of the Mexican mortgage system and facilitate its expansion to the medium income level population, especially in areas affected by migration, and promote at the same time the housing market.

Partner: La Sociedad Hipotecaria Federal (SHF).

Activities: promote activities linked with mortgage creation from commercial banks (consumer literacy, promotion of new ways to link migrant remittances from the United States with mortgages financed by their families in Mexico).

New areas for MIF financing

In addition to its work with microfinance, MIF is targeting two additional areas for leveraging remittance flows:

1. Housing finance; and
2. Securitisation of remittance flows.

Housing finance

Remittance backed low-income mortgages can help migrants pay for homes of relatives or for their own use.

The reliable flow of remittances can help transnational families save the required down payment and build their credit records, expanding the range of financial products and services available to them.

In addition, households that receive remittances can access formal financing, if they are able to document their total income – including remittances – to acquire a house (expanding the financial frontier).

In acquiring a house, the migrant turns capital flows into equity. This in turn enhances access to credit through the availability of collateral.

Remittance backed housing mortgages tend to concentrate in low-income housing social segments and rural areas.

The migrant target population increases its financial literacy due to its exposure to financial intermediaries and services.

By increasing the size of the housing market, migrant flows also help develop local capital markets.

MIF's projects will target the following areas:

- Financial Literacy of transnational families;
- Joint-ventures and partnerships between financial institutions at both ends of the migration; and

- Financial support
  - long-term financing in either USD or local currencies; and
  - incentives to promote innovation and/or financial inclusion.

Pipeline on Housing Finance

- Technical assistance to Sociedad Hipotecaria Federal (Mexico) to target unattended transnational families and deepen local capital markets through mortgage-backed securities (Q1 2005).
- Potential line of credit to develop low-income mortgage market for remittance recipients in Guatemala;
- Potential first USD denominated mortgage for migrants living in the United States acquiring property in Mexico/Central America; and
- Potential Euro denominated Housing Loan for Andean migrants living in Europe.

Securitisation of remittances

There have been 38 securitised remittance bonds issued in LAC over the past ten years, all in Brazil, Mexico and El Salvador.

The MIF will attempt to bring this instrument to other countries of the region that have sub-investment grade ratings.

These projects will enable local financial institutions to access long-term funds and on-lend them to their client base, including recipients of remittances.

MIF will leverage its investment through financial institutions: the on-lending should be several multiples of MIF's investment and to MIF's target market (*e.g.*, SMEs and microfinance).

In order to support the developmental impact of securitisation and to help the recipients of remittances, the MIF will issue a set of key standards promoting best practices within the LAC securitised remittance market.

Pipeline on remittance-backed investments

- Securitised bond in Jamaica to support long term loans to SMEs in Jamaica.
- Long-term subordinated loans backed by the flow of remittances to banks in Guatemala and Honduras. Both loans will support on-lending to SMEs and remittance senders and recipients.

PART III.

MACROECONOMIC IMPACT OF REMITTANCES

CHAPTER 9.

WHAT IS THE MACROECONOMIC IMPACT OF INTERNATIONAL REMITTANCES ON THE HOME COUNTRY?

by

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Introduction

Migration has become a central feature of the current international economy. In the year 2000, around 175 million people were residing outside their country of birth or citizenship – 3% of the world's population.[2] Globalisation has led to the increase in labour movements between labour markets across national borders. In addition, natural disasters and political instability have pushed many more people to leave their countries of origin in search of safer environment. As a result, the scale of international migration has increased and has led to an unprecedented increase in financial flows.

Remitted earnings constitute the most visible consequences of labour migration. The recent World Bank study, *Global Development Finance 2003*, highlighted the fact that remittance flows were the second-largest source, behind FDI, of external funding for developing countries. In 2001, workers' remittance receipts of developing countries stood at USD 72.3 billion or 1.3% of their combined GDP, much higher than total official flows and private non-FDI flows, and 42% of total FDI flows to these countries. Flows of remittances are usually larger than those of official development assistance.

Remittances are also a more reliable and stable source of income, and tend to fluctuate less with economic cycles: for example, they continued to rise during the Asian financial crisis even when flows of FDI fell. In fact remittances tend to increase in times of economic hardship because families depend on them as a principal income source, and because more people are likely to emigrate for work during such times. Better-off migrants who invest in their home countries are also less likely to be discouraged by adverse economic conditions than foreign investors. These remittance figures only refer to official transfers. In some countries it is thought that only around half of remittances

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2. UN Population Division: International Migration 2002 (New York, 2002).

pass through official banking channels, since migrants are discouraged from using them by cumbersome procedures, high fees and poor rates of exchange. Allowing for the funds that do not travel through formal banking channels, the global annual flow of remittances to developing countries probably already exceeds USD 100 billion.[3]

However, there is a huge debate on the impact of remittances in the home countries. Remittances may potentially have similar effects to other windfall revenues such as oil revenue or foreign aid. The main difference is that remittances are received by the households and not by the government. Consequently, they are private transfers, unlike other windfalls where government can decide where and how they may be spent. As such, their impact on the macroeconomy may be different, since they also affect households directly.

To be able to examine the impact of remittances on the macroeconomy, the following questions need to be answered: 1) how much are remittances in absolute terms and relative to exports and GDP? 2) which households, belonging to which segments of the income distribution, are the most affected? 3) what are the amounts repatriated being used for? 4) are remittances used for investment or consumption?

The theoretical macroeconomic impact of remittances

In theory, windfall revenues can lead to the *Dutch disease*, *i.e.* real exchange rate appreciation, inflation and the decline of the traded sector. If the exchange rate is fixed, the conversion of the foreign currency into local currency would increase the country's money supply and pressure from domestic demand would push up domestic prices. This would amount to an appreciation of the real exchange rate which weakens the competitiveness of the country's exports and hence causes its traditional export sector to shrink. In reality, the extent to which countries experience those symptoms depends on the steps taken by the government to ameliorate those effects. In fact, the impact of remittances varies over time and across countries. In the rest of this chapter the focus will be on the case of Egypt.

The case of Egypt

Egypt has been a major labour exporter since the early 1970s, exporting both educated and uneducated labour – with around 10% of the labour force working overseas, mainly in the Gulf States, or 2-3 million workers at any point in time. After the oil boom of 1973, the Gulf oil-exporting countries found their development plans constrained by labour shortages, and embarked on importing large numbers of workers from neighbouring countries. At the peak, the Gulf States were importing 90% of their labour force. Between 1975 and 1995, 5 million foreign workers have migrated to the Gulf Co-operation Council (see Girgis, 2002). During the 1970s and 1980s, Arab neighbouring countries were the main labour exporters to the GCC. By the end of the 1980s and in the 1990s, Arab workers were replaced by Asian nationals. In the 1990s, Egyptian outflows of workers continued though at a lower scale. Given, the labour and migration laws in the GCC and fixed term contracts, an important feature of migration from Egypt to the neighbouring Arab countries is its temporary nature, thus making Egypt an interesting case study. The high imported labour turnover and the scale of migration have resulted in

3. World Bank estimates, *Global Development Finance 2003*.

huge inflows of remittances to Egypt, and other labour-exporting countries in the region, such as Jordan and Yemen. Estimates of official remittances from the Gulf countries have been around USD 70 billion during the last three decades.

Egypt is amongst the highest ten countries receiving remittances in the world as, is shown in Table 9.1. Remittances to Egypt peaked in 1992, amounting to USD 6.2 billion and have been around USD 3 billion during the last few years.

The state tried to increase the share of remittances entering through legal channels by means of government bonds, incentive rates in banks, "own-exchange" imports and a crackdown on the black market. However, a wide divergence between formal and informal exchange rates has been seen as a disincentive to the repatriation of remittances through official channels in labour-exporting countries. The government's maintenance of multiple exchange rates and restrictions on business access to hard currency until the mid-1980s encouraged the entrance of funds through illegal routes at the black market rate, where migrant workers could obtain at least 30% more for their foreign currency than the official rate of exchange on the open market. However, by the late 1980s, exchange rate reforms had the biggest impact on remittances entering through legal channels. The realignment of exchange rates in 1987 led to an increase in bank deposits of around USD 750 million, the bulk of which were remittances of workers abroad.

In the 1990s, following the implementation of a stabilisation programme, Egypt, managed to build a sizeable cushion of foreign exchange reserves. The high differential between the interest rate on the Egyptian and foreign currencies led to a large surge of capital inflows.

Overall, the experience of Egypt shows that macroeconomic, political and institutional factors in the labour-sending countries are influential in attracting remittances.

The macroeconomic impact of remittances in Egypt

Table 9.2 shows that remittances have been a major source of foreign currency in Egypt. Remittances have had a substantial impact on the Egyptian economy over the last three decades.

Egypt experienced typical symptoms of *Dutch disease* in the 1970s and 1980s. Appreciation of the real exchange rate, expansion of the non-traded sector and a decline of non-oil tradeable were all features of those two decades. High inflation rates were also a problem. However, overall, remittances provided a huge flow of foreign currency and helped to reduce the balance of payments deficits.

On the other hand, the issue of remittances use by migrants has attracted the greatest interest and debate. Some argue that remittances are used primarily for the purchase of land and housing, and general household consumption, rather than "productive investment", and conclude that remittances thus do little to stimulate development in the home country. Others believe that migrants do save and invest, that expenditure on land and housing are rational under prevailing conditions (they frequently offer better rates of return or are a better store of value than other available investments), and that expenditures on housing and consumption have positive multiplier effects on the whole economy. In evaluating the impact of remittances, it is important not to treat all consumption as necessarily unproductive. To the extent that remittances are spent on improving poor housing, such expenditure is an improvement in capital stock. In addition,

expenditure on education and health is investment in human capital. Wahba (2000) shows that households with migrants are more likely to invest in education for their children and are less likely to send their children to work. In other words, remittances encourage investment in children's human capital. To sum up, it needs to be remembered that individuals are rational and act in their own self interest when using remittances which might not coincide with the social interest or the social benefit.

Entrepreneurship and investment in Egypt

International migration can affect the economic prospects of the origin countries through at least two main channels. First, emigrants may accumulate savings while overseas that, given the low wages and capital market distortions prevailing in many least developed countries (LDCs), might not have been possible without migrating. Second, overseas work may enable emigrants to acquire new skills and/or enhance human capital accumulation. Both channels can provide crucial inputs to start a business, or otherwise enhance earnings, on return.

Most of the empirical literature on migration and access to entrepreneurship concentrates on return migrants because of the availability of data sets on return migrants that are relatively rich, often including information on pre and post-migration wealth distribution and on the savings accumulated abroad. This has led to analysis of the occupational choice of return migrants and in particular self-employment and entrepreneurship. Those studies show that remittances and overseas savings have a potentially strong impact on access to entrepreneurship.

Based on micro-data, a number of important findings are worth noting:[4]

First, it is clear that overseas employment opportunities have significant effects on the probability of those returning migrants becoming entrepreneurs in the origin country. Overseas savings play a crucial role in access to entrepreneurship. Also, time spent overseas has positive and highly significant effects on being an entrepreneur on return. In addition, savings matter more than human capital acquisition for the probability of entrepreneurship of illiterate Egyptian return migrants. However, for the educated returnees, both access to credit, through overseas savings, and human capital accumulation are significant determinants of entrepreneurship upon return (McCormick and Wahba, 2001).

Second, there is growing evidence that remittances have been used in investment and productive activities in Egypt. Return migrants are responsible for 15% of the capital invested in small enterprises and 15% of the associated employment generation. In addition, comparing the businesses of migrants to those of non-migrants, the majority of enterprises are small-scale with less than five employees – 86% of returnees and 85% of non-migrants. The findings also support the view that returnees' enterprises are better than those of non-migrants. Returnees are more likely – by almost 30% – to create good jobs, measured as jobs that offer paid leave. There is a strong and positive relationship between being a return owner of an enterprise and that enterprise being engaged in services. Return migration does not have a negative impact on the formality status of the enterprise, *i.e.* returnees are as likely as non-migrants to establish formal sector firms.

4. See McCormick and Wahba (2001) and Wahba (2004). Those studies use the October 1988 special round of the Labour Force Sample Survey (LFSS), which was carried out by the Central Agency of Public Mobilisation and Statistics (CAPMAS) in Egypt.

Another important impact of return migration is on employment generation. An enterprise belonging to a return migrant is associated with 19% more jobs. Also, return migration has a positive, significant influence on the value of capital invested. Not surprising and supporting the hypothesis that overseas migration plays a critical role in reviving the credit constraint, the findings indicate that the value of capital invested is 17% more if the enterprise is owned by a return migrant.

Conclusion

Remittances can play an important role in the economy. However, they are private transfers. Thus, the government has to manage the economy to reduce any potential negative impact of those flows. More importantly, to attract remittances through the formal channels, the government needs to provide a sound economic and political environment. In addition, the state needs to provide the right investment climate to encourage both migrants and non-migrants to mobilise their savings into investment.

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Table 9.1. Top and lowest net recipient countries: conditioned on the extent of net migration

Highest net remittance receipts relative to net migration	Lowest net remittance receipts relative to net migration
India	China
Mexico	Israel
Philippines	Kazakhstan
Turkey	Pakistan
Russian Federation	Indonesia
Egypt	Ukraine
Jordan	Bulgaria
Yemen	Romania
Rwanda	Czech Republic
Morocco	South Africa

Source: Lucas (2005).

Table 9.2. The relevance of remittances

Country	Remittances as % of exports	Remittances as % of ODA	Remittances as % of FDI	Remittances as % of GDP
Egypt	80	282	303	4
Greece	16		149	1
India	27	779	500	3
Pakistan	12	155	353	2
Portugal	13		50	3
Philippines	15	1 047	298	8
Turkey	17	1 403	464	2

FDI: Foreign direct investment.
ODA: Official development assistance.

Source: Orozco (2003).

CHAPTER 10.

MACROECONOMIC IMPACT OF REMITTANCES[1]

by

Sena Eken,
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International Monetary Fund

Introduction

Remittances from workers abroad represent a flow of financial resources to a country, and affect economic activity and the macroeconomic environment through various channels. These effects will be particularly significant if remittances are large compared to the size of the economy and other financial flows. Thus, there is much interest on the part of policy makers in the causes, uses, and the economic impact of remittances, as well as how they could contribute to the development of the economy.

This chapter will first summarise briefly what the literature on remittances has to say on these issues. It will then will turn to the case of workers remittances to Morocco. More specifically, their relevance in terms of macroeconomic developments and policies will be discussed and the chapter concludes with an assessment of their potential contribution to the development of the Moroccan economy.

Literature on remittances[2]

There is a vast theoretical and empirical literature on remittances focusing on the causes, uses, and economic effects of remittances. In general, it can be summarised as follows.

- *On the causes of remittances*, most studies observe that family ties and altruism — the concern about the income and consumption levels of the family left behind — are prime motivations for remitting. More recent studies have focused on the idea that there can be self-benefiting reasons as well, such as investments of migrants (in the home country) that need to be tended while they are away. A few studies have also examined the portfolio diversification motives

1. This paper should not be reported as representing the views of the International Monetary Fund. The views expressed in this paper are those of the author and do not necessarily represent those of the IMF or IMF policy.

2. For a survey of recent literature on remittances, see Chami *et al.* (2003).

behind remittances, with the flows being a function of the rates of return on various assets or return differentials.

- *On the uses of remittances*, most studies observe that recipients of remittances use the funds to increase family consumption and to invest in real estate. Although there is some evidence that part of remittances goes toward productive investments, the widely held view is that remittances are used to increase family consumption and stock of wealth, but not necessarily the overall economy's capital. Thus, the literature on the causes and uses of remittances tend to reinforce each other.

- *On the impact of remittances on the overall economy*, studies point out that even if remittances are totally spent on consumption, there can be beneficial effects on the economy in the short run, provided that some of these funds are spent on domestically produced goods and services. However the evidence on the positive impact of remittances on longer-term economic growth is not conclusive. This could be related to the idea that remittances affect output mostly through consumption or demand and therefore could only have a short-term Keynesian effect. Some studies associate the lack of a positive impact with moral hazard problems. More specifically, altruistically motivated remittances could be counter-cyclical and create incentive problems, with remittance income reducing the recipient's need to work and adversely affecting economic activity. Large quantities of remittances may also create similar problems at national levels by providing a flow of financial resources and reducing incentives to reform. They may also divert productive resources towards non-tradables sectors through increases in the relative prices of their outputs and the general price level.

Workers' remittances in Morocco

Moroccan workers abroad are relatively large in numbers**.** According to various estimates, their numbers are in the range of 2.5-3 million. They represent about a quarter of the active labour force in Morocco and have helped alleviate pressures stemming from the rapidly increasing labour force. Close to one-third of Moroccan workers abroad live in France, but recently more workers are going to other countries, in particular Spain and Italy.

Large remittance flows have been a prominent feature of the Moroccan economy. They now amount to about 9% of GDP (up from an average of 5% per year, before 2001) and about 25% of exports of goods and services. Other than exports of goods, remittances, at about USD 4 billion, are the largest source of foreign exchange for Morocco. They almost cover the trade deficit and contribute to the overall balance of payments surplus. They have also tended to act as a relatively stable source of foreign exchange.

Remittances to Morocco are also large relative to remittances in other countries. The average level of remittances for developing and emerging market economies amounted to about 1.3% of GDP and 4.5% of exports of goods and services in 2002. These ratios for Morocco are also large relative to most countries in the Middle East region. For example, in percentage of GDP, they are about 3% in Egypt, 1% in Turkey, 5% in Tunisia and 18% in Jordan.

Remittances to Morocco are mainly driven by altruism. In a very recent empirical analysis, Bouhga-Hagbe (2004) finds that the elasticity of remittances with respect to real

GDP in Morocco is negative, suggesting that altruistic and solidarity motives are behind workers' remittances. This is in line with findings in other studies. Also in line with the findings in the literature related to their causes, remittances are mainly used for consumption and invested in housing. Investment in real estate by Moroccans living abroad is evidenced by the positive correlation between remittances and construction GDP.

Impact of workers' remittances on the economic development of Morocco

Despite the importance of their magnitude in the balance of payments, remittances do not seem to pose a significant risk in terms of stability. The large size of the financial flows through remittances raises questions about the vulnerability of the balance of payments. The empirical analysis by Bouhga-Hagbe (2004) also suggests that portfolio diversification motives (sensitivity to rate of return) are not significant among the long-run explanatory factors of workers remittances. This would suggest that risks for a sharp slowdown or reversal of workers remittances are not large.

Remittances pose a challenge for liquidity management and the conduct of monetary policy. In the context of the current fixed exchange rate regime, large inflows of remittances have contributed to balance of payments surpluses, the accumulation of foreign exchange reserves and excess liquidity in the banking system. Thus, the potential impact of remittances could come from credit growth through the availability of dirham liquidity and from inflation. Inflation is currently not a problem, with banks increasing their excess reserves. Flushed with liquidity however commercial banks invest in the money market and government securities, contributing to a decline in interest rates. To limit the downward pressure on interest rates, the central bank has been mopping up excess liquidity using deposit auctions and reserve requirements. This reflects the concern to maintain interest rates positive in real terms since, at their current level, they do not seem to be a binding constraint to credit expansion. Monetary policy will need to remain vigilant to prevent demand pressures that would tend to increase the price level of non-tradables and therefore inflation.

If the monetary policy framework were different, remittances could contribute as much to determining the level of the exchange rate as any other source of foreign exchange. The stability of these flows suggests that they would not be a source of exchange rate volatility. They could, however, lead to an appreciation of the dirham as could be the case in the current context of a balance of payments surplus. In the second round, the appreciation of the dirham could increase domestic demand which could in turn dampen the pressures for appreciation. An appreciation of the exchange rate would also dampen potential inflationary pressures from remittances if balance of payments surpluses persisted.

Remittances facilitate the financing of the government budget deficit. As noted earlier, remittances contribute to excess liquidity in the banking system. This excess liquidity helps finance the government budget deficit without crowding out the private sector. This could potentially reduce the government's incentive to lower its deficit. In the future, there could be interest rate hikes and crowding out if the liquidity in the banking system became insufficient to meet the economy's financing needs as a result of larger private investment or higher budget deficits.

Remittances in the banking sector could be channeled to productive investments by the private sector. The empirical analysis suggests that remittances to Morocco are not

driven by return arbitrages that could make them volatile. Thus they could be used to finance investments by others through the banking system. The increased allocation of remittances for private investment could then contribute to sustained and higher economic growth rates. In this regard, measures to enhance the investment climate and render the financial system more efficient and diversified should help. If reforms aimed at increasing private investment were to succeed, however, the government deficits should be reduced so as to prevent upward pressures on interest rates and crowding out. It is encouraging that the measures being taken by the government to reform the public sector and reduce the deficit go in the direction of helping increase investment from remittances.

In sum, remittances are likely to continue to be an important source of foreign exchange inflows to Morocco for the foreseeable future. With continued macroeconomic stability, ongoing financial sector reforms, an improved investment climate through structural reforms, and the envisaged reforms of the public sector, remittances could increase further and be channelled to productive investments. They could thus become an important source of capital for development.

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CHAPTER 11.

EMIGRANTS' REMITTANCES – A POTENTIALLY IMPORTANT DEVELOPMENT TOOL: THE CASE OF ITALY

by

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Economic Research, International Relations, Bank of Italy

At USD 126 billion in 2004,[1] officially recorded workers' remittances to developing countries have become the second largest source of external finance after foreign direct investment (FDI). If it were possible to take into account also unofficial flows and in-kind transfers, remittances might already represent the largest aggregate financial flow from developed to developing economies.

The increased importance of remittances, together with the relatively low volatility shown across time, has induced academics and policy makers to think of them as an important tool for economic development. But, if the link between economic development and remittances – through the migration channel – is sufficiently direct and obvious, the reverse is not quite so. Indeed, despite the theory's predictions, empirical evidence is unable to identify a robust causation link between remittances, on the one side, and economic development, on the other.

The chapter presents the case advocating that remittances are only potentially an instrument of economic growth. In other words, they represent an opportunity for development in the recipient country. In the absence of the preconditions for remittance flows to have an impact on development, this latter will not materialise. The experience of Italy between the end of the 19th century and up to the First World War will be illustrated briefly, in order to provide consistent evidence. Historically, in all countries characterised by large migration outflows, workers' remittances have had at least two important, direct consequences: first, undoubtedly, they have contributed to raise the living standard of recipient families; second, from a macroeconomic point of view, they have helped significantly to ease the recipient economy's external constraint.

But what is the expected medium-term impact on economic growth and development? Answering this question is not as simple. In line with the predictions of modern growth theory, remittances might affect development through a number of different channels: first of all, by increasing recipient families' disposable income, remittances represent

1. World Bank estimates, *Global Development Finance 2005*.

additional resources available for both consumption and investment. Obviously, the positive effect on output growth is believed to be greatest to the extent that such receipts are saved and invested in productive activities.

In any case, remittances being private transfers, the choice upon the allocation of such funds pertains to the beneficiaries themselves. In this respect, a favourable investment climate, achievable through macroeconomic stability, good institutions, a sound legal environment, efficient markets, sound and competitive banking and financial sectors, incentives to small and medium enterprises, would help create the right preconditions for remittances to have a beneficial impact on medium-term economic growth. A further important channel by which remittances may influence development is, as already mentioned, through the impact on the balance of payments: where the trade balance is persistently weak, and foreign investment scarce and aid limited, the relatively large amounts of remittance receipts may be of great help in alleviating the external constraint. Obviously, the advantages are subordinated to the use of remittance receipts to import the investment goods necessary for an appropriate structural transformation of the economy.[2] On the contrary, further pressures on the current account could derive if such funds were to be devoted mainly to import consumption goods from abroad.

Additional positive repercussions on growth might follow from the qualitative improvement of human capital, to the extent that remitted funds are devoted to health expenses and to finance education. Moreover, positive spillovers on productivity could materialise if a sizeable fraction of emigrants ultimately would return, bringing back the know-how and experience accumulated abroad. Besides their potential benefits, remittances may also convey a number of possible drawbacks. In the face of an unresponsive domestic supply structure, indeed, the induced increase in demand may lead to inflationary pressures. In addition, the easy financing of trade deficits, through abundant remittance flows, can be a disincentive for governments to pursue the structural policies needed to make the domestic economy more competitive in the international trade arena; the result could be a lack of diversification in the production structure, chronic balance-of-payments weakness and increased dependency on remittance receipts.

Finally, moral-hazard considerations, as for instance lower workforce participation on the part of remittance beneficiaries, may eventually lead to limited output growth. In such a context, policy authorities play a central, although indirect, role: that of deploying those preconditions necessary for potential benefits to materialise and for potential risks to be avoided. Those conditions lacking, remittances are likely to have negative repercussions, or at best no durable effect, on the economic development of recipient countries.

The Italian experience is particularly illustrative of what has been said so far, for at least two important reasons: first, traditionally an emigration country, Italy became an immigration one in the early 1970s, transforming itself from a net receiver to a net sender of remittances at the end of the 1990s. Second, and most important, the chronic differences in economic development between northern and southern regions, offer a good example of how remittances may have different effects on economic growth. The emigration phenomenon has characterised Italian history for more than a century, starting since the unification of the country in 1861. The first emigrants were mostly specialised artisans coming from the northern regions and going to European countries like Germany, France and Switzerland. This early migration was soon followed, at the end of the

2. A transformation that would move resources from the production of non-traded goods to the production of traded goods, considered as the main structural change for development and growth.

19th century, by the mass migration of peasants, mainly coming from the central and southern regions, and going to the United States and Canada. The average total outflow grew constantly, from 131 000 departures per year in 1876-1885 to 600 000 in 1906-1915.[3] A large portion of those emigrants were unskilled and illiteracy was widespread.

Emigration flows remained strong until the outbreak of the First World War and started rising again in its immediate aftermath. Outflows were then less intense, first because of entry restrictions in the United States and laws limiting expatriation, and then in response to the effects of the Great Depression; they eventually stopped during the Second World War. Strong emigration was again experienced in the years subsequent to the war and until the early 1960s. Then, the so called "economic miracle" closed most of the Italian per capita income gap with the other developed countries, outflows began declining and Italy started becoming an immigration country.

During the century under consideration, the dynamics of remittance receipts followed quite closely that of emigration flows; fluctuations were clearly attributable to factors like business cycles – both at home and in destination countries – demographic characteristics of migrants, skill level of the migrated workforce, exchange rate variations, restrictive legislative measures, international diplomatic relations, and wars. Remittance flows started decreasing significantly only during the 1970s, following the country's development catch-up.

The largest inflows were experienced from 1900 to 1914, because of persistent rural poverty and high demographic growth but also accompanying the beginning of Italian industrialisation, and following increased economic growth and labour demand worldwide. Throughout those years remittance receipts increased considerably, from ITL 1 billion to around ITL 5 billion in real terms,[4] ranging between one-third and one-tenth of the total balance of payment revenues.

Historians are unanimous in saying that Italian emigrants' remittances played a central role both in improving the welfare of recipient families and in financing national imports.[5] At the household level, indeed, those funds were used to repay loans (mostly contracted in order to finance the expatriation costs), to improve nutritional standards, finance housing, healthcare and education. It is also noteworthy here that an increasing portion of receipts was saved in the form of treasury bonds and bank/postal deposits.[6]

From a macroeconomic viewpoint, the sizeable remittance inflows made a crucial contribution to finance the high external deficits associated with the relatively large imports of raw materials and investment goods which took place during the early stages

3. ISTAT figures on emigration are to be found in Rososli, G. (ed.) (1978), *Un secolo di emigrazione italiana 1876-1976*, Centro Studi Emigrazione, Rome.

4. In 1938 Italina liras, see Balletta F. (1978), "Le rimesse degli emigrati italiani e la bilancia dei pagamenti internazionali (1861-1975)", in F. Assante (ed.), *Il movimento migratorio italiano dall'unità nazionale ai nostri giorni*, Droz, Geneve.

5. See Arru, A. and Ramella, F. (eds) (2000), *L'Italia delle migrazioni interne*, Rome, Donzelli editore, 2003. De Rosa, L., "Le rimesse degli emigrati e lo sviluppo economico dell'Italia (1861-1914)", in *Nuova Rivista Storica*, Set-Dic 2000, pp. 563-574. For a recent reconsideration of the Italian experience see Bevilacqua, P., A. De Clementi and E. Franzina (eds.) (2001), *Storia dell'emigrazione italiana*, Donzelli editore, Rome.

6. See Massullo, G., Economia delle rimesse, in *Storia dell'emigrazione italiana, op. cit.*

of the country's industrial development; this latter started in the last decade of the 19th century and was limited to a few regions in the North.

In spite of the fact that the largest amounts of remittances were received by the central and southern regions, the same that eventually contributed most to Italian emigration, economic development in southern and central Italy did not materialise, at least until the aftermath of the Second World War. It is not appropriate in this chapter to expand the analysis on the reasons behind the chronic underdevelopment of the South. It will suffice to list briefly a number of factors that prevented southern regions from exploiting the remittance opportunity in order to experience the structural transformation and the economic development enjoyed instead by the North.

First of all, it is important to stress the existing differences in initial conditions: for a very long time, southern regions had been poorer that northern ones; illiteracy rates were higher and access to water, healthcare and other basic public services was more difficult. Economic activity was centred on the agricultural sector, where a low-specialisation, non-capital-intensive, largely latifundium-based production structure did not allow competitiveness and growth.

In contrast to the North, southern regions were peripheral with respect to the main commercial networks and were characterised by a lack of infrastructures; the banking sector was largely unable to provide adequate financial support, entrepreneurship was absent, institutional quality was relatively low. Rural customs did not help: quoting one historian, "peasants, the most elderly especially, were used to consider money more as an accumulation device rather than a payment instrument".[7]

In the North, government policies had pursued industrial development through subsides, public investments and an industrial protectionism; on the contrary, the South – where agriculture played a larger role but was also less dynamic – did not benefit from the same kind of policies. In short, the North enjoyed a superior investment climate and a more consistent set of development policies. This allowed the northern part of the country to benefit from most of the large remittance inflows of that period: these funds were crucial to finance the large external deficits experienced during the years of industrial transformation of the Italian economy. The sizeable savings of recipient households in central and southern regions – channelled through banks, post offices and treasury bonds – represented an important source of funding for investments, both private and public, in the North. In the 1890s two major commercial banks, the *Banca Commerciale Italiana* and the *Credito Italiano*, dedicated to support industrial expansion had appeared just at right time to finance northern development. Finally, the increase in disposable income associated with rising remittance inflows contributed to create new markets for the newly developing northern industrial sector.

With regard to the central and southern regions – characterised, it would be said today, by a "less favorable investment climate" – the benefit was limited to a rise in living standards. Important as it was to reduce poverty, malnourishment, usury, and increase consumption, it was not sufficient to create a self-sustaining path of economic growth. As in the case of 16th century's Spain benefiting from American gold and silver receipts, large amounts of money passed through the pockets of beneficiaries, increased their immediate welfare, but failed to translate into durable economic growth.

7. See Serpieri (1930), pp. 149-150.

CHAPTER 12.

REMITTANCES AND DEVELOPMENT: THE CASE OF GREECE

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Introduction

Remittances impact on the economy in two basic ways: in the form of foreign exchange they alleviate the balance of payments burden and pay for imports, while in the form of local currency they increase demand for consumption goods and investment. Both functions are very important for poor or developing countries with high rates of emigration, which more often than not have chronic problems in their international transactions and deficiencies in their productive investment activity. In cases where remittances represent significant proportions of the financial resources of a country, there are high expectations that this voluminous and often continuous source of funds will change the recipient economy, pulling it to higher levels of development and growth. Governments count on these resources to fill the vacuum of their inadequacies and their incompetence in adopting effective structural policies that would make their countries competitive and bring economic well-being to their citizens. Consequently, the concern of all governments is first, how to attract more remittances and second, how to motivate migrants or relatives to dispose as high a proportion of these remittances as possible to productive investment and as little as possible to consumption and imports. The efforts for attaining the former aim have the double purpose of raising remittances for covering the balance of payments deficit, and at the same time stimulating domestic demand, whereas the motivation to invest is concentrated on augmenting the productive capacity of the economy.

On these lines, this chapter focuses on Greece, and has three objectives: to discuss how capable are policies for attracting more remittances; to see whether and to what extent remitters or remittance receivers were convinced and motivated to invest their savings in productive activities, and to investigate how the spending of remittances, in whatever way they are spent by recipients, contributed directly and indirectly to growth and development in Greece. It should be noted that Greece is now a historical, not a current case, given that emigration has practically come to a standstill and the number of Greek immigrants in Europe and elsewhere is stabilised. It is interesting though that even

today workers' remittances, although declining, continue to flow at an average annual rate of about USD 1 billion.

Factors and policies attracting remittances to the country

Size and relative significance of remittances

During the period 1965-75, remittances were continuously rising, from USD 207 million to USD 782 million, representing about 57% of the export revenue. From then on, although remittances in nominal terms were rising, reaching in 1980 USD 1 billion, their relative importance as foreign exchange diminished, representing in 1980, 26% of export revenue. In the second half of the 1980s, remittances started to increase again and they had tripled (USD 3 billion) in nominal terms, in 1995 (the peak year for remittances in that period), regaining their relative importance, reaching 52% of exports. Then, remittances started to decline every year to return to the 1980 level in 2002, while their relative significance decreased to 12.9% of exports (Table 12.1).

What makes migrants remit and change their transfers?

Setting aside the various theories that explain the motivation to remit, the bottom line is that migrants send remittances back to the home country either to help family members that stay behind, or for saving and investment. The former can be considered either as a gift or as an obligation, depending on the actual conditions of individual migrants and their families, whereas saving and investment are motivated by hard economic facts that determine the relative return to saving and investment between home and host country, but they are also affected by political stability in the home country. As a result of these motivations to remit, the actual size of remittances consists of an autonomous component that reflects the voluntary form of remittances, which is largely unaffected by economic motives and policies, and an induced component of remittances, that is determined by objective economic conditions and policy incentives. Which component is higher depends on microeconomic and macroeconomic factors prevailing at specific periods in the home and host countries, as well as on the nature and the form of migration, and their changes over time.

As the status of Greek migrants in West Germany was changing over time, shifting from temporary stays to permanence and family reunification, remitting behaviour has been observed to have changed too, acquiring the traits of the non-obligatory attitudes akin to the phase of permanent migration (Glytsos, 1997). This transformation of the nature of migration is expected to raise the part of remittances that are transferred for the purpose of reaping market economic gains and reduce the amount per migrant, which may be reflected in the total size of remittances. This seems to be the case for Greece, given that during the period 1980-85, the flow of remittances decreased. Furthermore, certain studies for the longer period 1960-1993 indicate the changing remitting attitude from obligation to altruism, or to business orientation (Glytsos, 1997; Lianos, 1997). This is supported by evidence found elsewhere in respect to the different remitting behaviour of temporary and permanent migrants, suggesting that temporary migrants remitted much more than permanent migrants (Merkle and Zimmermann, 1992).

Turning to macroeconomic factors, from 1968-1981, which is the period during which emigration and the repatriation of Greeks to and from Germany was intensive, the nominal interest rates for time deposits of foreign exchange ranged between 5.5 and 13%. Correspondingly, the deposits of migrants and merchant marines increased from

42 million drachmas to 160 133 million drachmas in nominal terms and from 168 million drachmas to 128 621 million drachmas at constant 1980 prices. Between 1975 and 1979, in particular, when the interest rate in Greece was higher than in Germany, more deposits were probably attracted to Greece. This is not however a valid argument for the whole period, given that in the face of relatively higher German interest rates in other years, deposits were rising in Greece. In fact, econometric estimates using data from the Greek-German migration of the period 1960-1982, show a neutral Greek nominal interest rate, demonstrating no impact on remittances. The same econometric analysis shows that remittances are motivated by per capita income in Greece (as a proxy for the migrant family income), satisfying the conditions of the implicit contract model of remittance determination (Glytsos, 1988a, 2001). The rate of inflation, expressing economic and possibly political instability, was found to affect remittances negatively, probably neutralising the impact of nominal interest rates.

The perceived view is that the extent of home banking facilities to cities and towns with numerous Greek migrants has indeed contributed to the rise of remittances. This has to do with the reinforcement of confidence in migrants about the security of their transfers and the lower cost of transmitting remittances, compared with some other alternative (*e.g.* Western Union) or unofficial routes of transmission.[1] Several Greek banks have opened branches in places in the host countries with high concentrations of Greeks. By 1990, Greece had 26 bank branches in Germany and 15 in the United States (Karafolas, 2001). Naturally, these banks weren't there simply for the transfer of remittances, but also to offer other banking services to Greek migrants, including deposits and extending finance to the Greeks for entrepreneurial activity.

This banking expansion took place during the 1970s, a period with high migration and accumulation of Greeks especially in Germany, but it continued in the 1980s and 1990s. The number of units of Greek banks operating in that country increased from only two in 1965, to 17 in 1980, and 26 in 1990, ending up with 27 branches or offices in 1994, scattered around in 12 cities and towns with a high concentration of Greek migrants. The situation was similar with new Greek banks in the United States, with 21 banking units in eight towns in 1994 (Karafolas, 2001). Increased remittances through the Greek bank branches abroad was partly the result of diversification from other transmission channels, such as the post office, that charged a relatively higher fee for transmitting remittances. The role of home country banks to host countries in increasing remittances is also supported by evidence from Portuguese and Philippine banking facilities in several European countries (*ibid.*).

Among Greek banks abroad was the National Mortgage Bank of Greece, specialising in accepting deposits and providing credit for the purchase of houses in Greece. This bank created a network of representative offices abroad to receive deposits of Greek migrants, on the basis of which they could in time borrow a multiple amount in Greece to buy real estate. The special deposits were rising considerably at constant prices up until 1979 (almost doubled since 1972), after which they started to fall (almost cut in half) in 1982. This banking network has contributed greatly in the transfer of remittances to Greece. In 1966, 61.6% of its depositors were from abroad. The proportion peaked to 85.3% in 1970, and then declined to 60% in 1983 (National Mortgage Bank of Greece, *Annual Reports*).

1. For the role, the significance and the consequences of official and unofficial channels of remittance transmission in general see, for instance, Glytsos (2004) and Glytsos and Lianos (2005).

Policies for increasing remittances

Policies that have been applied in various countries, perhaps in different forms, for attracting more remittances, include own exchange imports, special bonds, special deposits etc.[2] Such measures were not generally very successful, except perhaps the increase in the foreign exchange rate (devaluation of home currency) for certain countries. But even in this case, it was not so much that migrants sent more money; simply, they were motivated to change the channels of transmission from the black market, where they were getting a high premium on the exchange rate, towards the official channels when this became profitable, considering not only the value of the exchange rate, but also the safety and the cost of transmission. This seems to have worked in countries belonging to the MENA region (Middle East and North Africa), where the difference in the exchange rate between the black and official markets was significant.

The response to such policies may have a limited success, possibly because migrants are usually risk averse, counting greatly on the security of their money rather than in getting some higher gain, without being assured on what comes next, if the prevailing conditions in their home country are politically unpredictable and economically unstable. For instance in Turkey, factors that have to do with economic and political stability rather than simply economic incentives were found to be more convincing to migrants (Straubhaar, 1986). Between policies for raising remittance flows and policies for channelling remittances to productive investment, the objective of the Greek government was at the time to increase remittances to counter the chronic balance of payments deficit, rather than motivating migrants to invest their savings. In fact, government has been criticised for the lack of such an effort to direct remittances to productive investment.

Evidence shows that in late 1970s, more than half of Greek migrants in Germany deposited their savings in Germany, and only a quarter in Greece. The rest divided their saving between banks in both countries. By the mid-1970s, when it was realised that emigration had been excessively high and some signs of a demographic deterioration started to appear, the Greek government adopted policies for repatriation, which if successful, would in any case increase the transfer of migrant savings to Greece. Judging from the kind of measures applied, it is evident that the purpose was, apart from the repatriation of people themselves, to gain foreign exchange rather than to stimulate direct investment of the transferred money. This seems to be the case, since the policies applied included sizable tax allowances and import duties on consumer durables, especially automobiles – very heavily taxed in Greece at that time – brought by returning migrants. In addition, special credit provisions and tax allowances were offered for the purchase of assets and land, if paid in imported foreign exchange (Glytsos and Katseli, 2005). This policy was up to a point fairly successful for attracting more remittances (Glytsos, 1991). Since the late 1980s, the conversion of remittances into local currency had increased as a result of the liberalisation of foreign exchange in Greece, which allowed the opening of accounts in converted drachmas, simultaneously with the increase in interest rates and tax allowances for deposits in foreign currencies converted into drachmas (Karafolas, 2001).

Policies for attracting remittances to investment

It should be recalled that the measures taken with the primary aim of motivating migrants to return for demographic reasons, as noted above, necessarily affected

2. For a detailed account of measures on remittances see Garson (1994).

remittances, given that the migrants would return along with their savings. Policies of this kind took particular attention of the fact that many returning migrants, who had emigrated abroad from the periphery and the rural areas, were settling in the cities, mainly Athens (Attica Region) and Thessaloniki (Central Macedonia region), and were using their savings in the place of their settlement (Figure 12.1). To contain this tendency, and hoping for the development of entrepreneurial activity by returnees in the periphery, the government subsidised settlement in the countryside, offering a lump sum and a monthly allowance for children attending vocational training and adjustment tutorials. To facilitate repatriation in general – irrespective of the place of settlement – special programmes of education and training were designed (in 1993/94, 24 such programmes were running), and provisions were made for the education of second generation children. The repatriation was also assisted by a number of institutions, established specifically for this purpose, some of them by non-governmental organisations (NGO), including special offices in the Greek IOM (International Office for Migration) and the government employment offices (Glytsos, 1995).

It is in a way ironic that many more Greeks returned home during the period 1976-80, that is, before all these measures were introduced — than as a result of these measures, which were considered not very effective in mobilising migrants (Petropoulos *et al.,* 1992). This suggests that what made migrants return were objective factors rather than policies, including the economic recession in host countries and the return of democracy in Greece after seven years of dictatorship, or even the attainment of the goals of the target migrants. Some measures, such as the provision of tax allowances for deposits to be used for buying houses, discussed earlier, although attracting more remittances, were not in fact perceived as incentives for mobilising remittances to productive investment. It is obvious that, apart from inducing more migrants to return, the policy was motivated by the need to acquire foreign exchange for the alleviation of the ailing balance of payments and not for channelling remittances to investment for future production, unless this policy was aimed (and I doubt it was the case) at indirect investment generated by the purchase of estate.

Direct policies were however adopted to encourage migrants to co-operate amongst themselves and to invest their savings. Apart from convincing migrants to channel their savings to production *per se*, the aim was to motivate them to take the responsibility for the management of this investment. One such policy concerned the establishment and support of production co-operatives in regions with high emigration. This policy was at the time judged inadequate and ineffective with little results. Thus, during the period 1975-80, only five such co-operatives were created, engaging 311 returnees (Glytsos, 1995). Given this unsatisfactory outcome, the government decided in 1982, and later in 1987, to initiate stronger incentives that were jointly expected to increase remittance flows and channel more remittances to productive investment. For this purpose, the government extended to migrants the privileges applied to co-operative enterprises and the enterprises of municipalities. They offered, in effect, higher subsidisation and more attractive tax and depreciation allowances, as well as a shorter bureaucratic procedure for approving investment projects financed out of migrant savings. These measures, aiming at the creation of companies by migrants were considered as unsuccessful (Fakiolas, 1994).

Advising and consulting for migrant investment *per se* did not exist in Greece in an organised way, but migrants had the opportunity to ask for advice and guidance at the office for the promotion of investment (Ministry of the National Economy), established by the government in 1987, addressed to prospective investors. In addition, a European centre of information, as well as industry-specific centres with the objective of consulting

and guiding small and medium-sized enterprises (SME) were accessible to migrants. Only the Agricultural Bank of Greece, a state bank, had a special service providing technical and financial assistance for the promotion of investment in agriculture by migrants (Glytsos, 1995). From a combination of sources indicating how remittances are spent by recipients, it is estimated that during the peak period of migration, about 63% was spent on consumption; 22% on housing; 7% on agricultural land; 4% on investment in trade and 3.5% on machinery (Glytsos, 1993). With respect to direct investment, data show that from 1982 to 1984, 81 projects were submitted to the Greek government by migrants to take advantage of the various investment incentives. The total amount of investment of these projects, USD 45.8 million, represented 1.6% of total remittances and 6.4% of all investment submitted for approval to the Greek government. Then, between 1982 and 1987, 394 investment projects, amounting to USD 11.8 million, representing 3.6% of remittances and 5.8% of all investment projects, were submitted by migrants.

The sectoral distribution of this investment was as follows: 64.2% in the tertiary sector, mostly in tourism, 27.2% in the secondary sector and 8.6% in the primary sector. The investment in tourism favored mostly the east part of Greece, the Aegean Islands, Peloponnessos, Western Greece, East Macedonia and Crete. It is interesting that regions with heavy emigration, such as Thrace and Macedonia, received only 22.3% of migrant investment, which suggests that the investment was not taking place of origin of the migrant, but in other areas, often within the same prefecture or adjacent prefectures (Kontis, 1990). Overall, in respect to the mobilisation of remittances for productive purposes, the evidence shows a very limited success of direct investment by migrants or recipients. The effectiveness of the adoption of appropriate macroeconomic policies for channelling saved remittances in a way of promoting is also limited. Policies for attracting remittances to investment are not effective in other countries either. For instance, evidence from Turkey testifies to the fact that remittances are not used directly for investment, but for the immediate needs of recipients (Straubhaar, 1986). Growth may be forthcoming therefore mostly from the multiplier effects of the autonomous spending of remittances by migrants or recipients.

Impact from the multiplier effects of remittance spending

There is a general perception that for the kind of country Greece was in the 1960s and 1970s of the great emigration, *i.e.* in its developing phase, with low income and a chronic deficit in the balance of payments, remittances and other transfers from abroad have sustained income and demand. But on the other hand, remittances with their weight and their continuity harmed competitiveness and trade, through the expansion of imports, liquidity and the demand for non-tradables, mainly housing and land (Maroulis, 1986; Katseli, 1990, 2001; Glytsos, 2002b). One important consequence of the great population exodus of this period to western Europe was the broadening of demographic regional inequalities, *pari passu* with a narrowing of economic regional inequalities, particularly between the center and the periphery (Glytsos, 1988b). The demographic changes were the result of emigration, whereas the economic changes could be partly attributed to remittances that for some regions weighted heavily in their economy.

Regional impact of remittances

An experiment by observation

To make a point for the contribution of remittances to regional development, two quite different regions of Greece in terms of the outflow of people, but with similar pre-emigration economic characteristics are compared. The regions are East Macedonia and Thessaly, which had in the pre-migration year 1961 the same per capita income; very similar proportions of employment and levels of productivity in agriculture; and almost identical natural population growth and ageing (Table 12.2). They differed however greatly in terms of emigration and remittances. The former experienced heavy emigration and the latter light emigration. More specifically, during the period 1961-77, 28.4% of East Macedonia's and 9.1% of Thessaly's population had emigrated, while remittances corresponded, in 1971, to 19.7% of East Macedonia's private output and to 5.7% of Thessaly's private output (Glytsos, 1990).

As emigration was in process, the comparative demographic situation of East Macedonia was fast deteriorating, compared to the demographic situation of Thessaly. At the same time, remittances started to flow and accumulate. Remittances per inhabitant in East Macedonia were three and a half times higher than in Thessaly and they represented respectively, in 1974, 20.3% and 6.0% of the average rural household expenditure in the two regions. During this time, the economic situation in the two regions changed in the opposite direction from the demographic evolution. The spending of these remittances, apart from raising the standard of living, changed the pattern of consumption in East Macedonia deeper, shifting it towards the average of the semi-urban areas of the country as a whole.

In East Macedonia, remittances increased the expenditure in education – which incidentally, is expenditure on human capital – and recreation by 54.7%; for transport and communication by 42.2% and for durable consumer goods by 34.7%, while average consumption for all items was raised by 20.3% (the corresponding figures for Thessaly were: 16, 12.7, 10 and 6.0%) (Table 12.3). In addition, the restructuring of the economy, including a shift of employment from agriculture to other sectors; a change in agricultural productivity; and a more general economic performance were all moving relatively faster in East Macedonia. Given that no particular regional policy or any other reason could possibly explain this post-migration different situation of the two regions, it can only be assumed that it was mainly the significant volume of remittances that privileged one region and the lack of remittances that kept the other behind.

Other evidence on regional impact

One of the highest emigration rural regions was Florina in Northern Greece, from which, during the period 1960-70, 40% of the population emigrated. As a result of remittances, the post-migration consumption of recipients exceeded by 60% the average expenditure of the country's rural areas, raised from a pre-migration level 28% lower than the level of Greece's rural areas (Glytsos, 1993). For status symbol consumption items, such as beverages, footwear and durables, the expenditure of recipients in Florina exceeded the average level of Greece's urban areas as a whole. Including all population of the region (recipients and non-recipients of remittances), the post-migration consumption reached the average of Greece's rural areas, up from a pre-migration level equal to 81% of the consumption of these areas.

The conclusion from these observations is that remittances urbanised the consumption pattern in regions with heavy emigration, such as East Macedonia and Florina, partly through the weight of remittance recipients *per se,* the working of the demonstration effect to non-remittance recipients and the diffusion effects of the spending of remittances in the economy of the regions, respectively. Underlying this changing consumption pattern is, among others, a psychological drive to acquire a more urbanised life-style that can be afforded because of remittances (Glytsos, 1993).

Quantitative estimates for Greece as a whole

Focusing on particular regions with heavy emigration is perhaps a more pertinent approach for assessing the impact of remittances on development, but the overall impact for the country as a whole is no less important; it may capture dimensions that cannot be studied at a lower level. The estimates presented here refer to the past, because it was then that the interest in emigration and remittances was keen and the relevant, or irrelevant, policies at the forefront. So, it may be noted that at the peak of interest and concern in migration, in the 1970s, estimates show that remittances doubled the Greek average consumption of recipients. For some items, such as education and recreation, remittances raised the expenditure 3.3 and 2.1 times respectively (Table 12.4).

The diffusion of the recipients' expenditure to the economy at large has contributed, in the early 1970s, 4.1% in Greece's GDP, against an overall growth rate of 8%, giving a multiplier 1.7 with respect to the original expenditure of remittances. In several industries, including construction, the multiplier was around 2. Remittances induced imports that represented 12.8% of induced gross production, absorbing 22% of the original spending of remittances. The share of investment goods in induced imports was 26.6% and share of consumption goods 73.4%. The volume of these imports represented however, only 4.9% of Greece's total imports. Remittances further sustained 4.7% of employment and 8% of the capital capacity in Greek manufacturing (Glytsos, 1993). Taking into account the whole period 1969-1998, the impact of remittances on growth seems to vary. Econometric estimates confirm the above findings of the early 1970s, showing a positive impact on output, remittances inducing a growth rate of about 3%. However, for the rest of the period, these estimates demonstrate positive and negative spells of remittances on growth, affected by the ups and downs in the volume of remittances, but the size of the induced growth rates is generally low (most of the time, less than 1% in either direction) (Glytsos, 2002a, 2002c).

A note on Greece as an immigrant and remittance exporting country

Nowadays, the interest is monopolised by the immigration to Greece, which from some perspectives is considered as a challenge and an opportunity, and from others as an issue for concern. The challenge is how to manage this large group of foreigners that make up about 9% of Greece's population and probably 12% of its labour force. More specific post-legalisation issues are how to deal with the various aspects of immigrant integration in the Greek economy and society, and how to restrict further illegal flows, or the relapse to illegality. The opportunity is expressed by the recognition of the immigrant contribution to the Greek economy, and the covering of labour shortages in certain sectors of the economy and regions of the country. The concern is that these immigrants

may perhaps have become too many for the Greek economy and may steal jobs from the native workers in some economic sectors.[3]

In order to give a glimpse of that other face of Greece as an immigration country with about 900 000 immigrants, a few rough figures are presented on the export of remittances. The focus is on Albanians, who are the predominating ethnic group and constitute in recent years the largest Albanian community of migrants in Europe. Unlike Greek emigrants, Albanians in Greece represent a very high proportion of the Albanian population and they remit a large proportion of their earned income in Greece. All in all, Greece exported an annual average of USD 300 million of official workers' remittances, during the period 1999-2002. Since the overwhelming majority of immigrants are Albanians, their share in these remittances should be very high. It must however be noted that the actual volume of remittances flowing to Albania is much higher than the official figure might suggest. This is because other unofficial channels are also used for the transfer of savings, including the money carried on their frequent visits to Albania, due to the easy and inexpensive access as a neighbouring country. The combined value of remittances and repatriated savings to the Albanian economy (from everywhere, but mostly from Greece) in 2001 totalled USD 542.6 million, or 23.4% of Albania's GDP (Nicholson, 2004).

According to a survey carried out in the mid 1990s, half of migrant earnings were sent back to Albania and of that amount just over half was used for consumption, while the remainder was saved and invested. One-third of those who saved intended to use the savings for building a house. Only 3% intended to put the money in industrial buildings or equipment. Another survey, in 1998, showed that 40% of money sent back by first-time emigrants was being saved or invested (*ibid*.). Returning migrants typically invest in small or micro-enterprises, one-person or small family business, in order to have control. Migrant earnings are the source of most investment in agriculture, which is the largest economic sector in Albania, financing livestock, tractors and other machinery (*ibid*.). During their stay in Greece, Albanians make contacts with potential suppliers so that they can upon returning start and subsequently expand small manufacturing business of their own. For instance, a carpenter obtained materials from Greece, where he also bought the machines and got the idea for business. Workshops producing aluminium doors and windows were set up by migrants who have done that kind of work in Greece and obtained the material from there also (*ibid*). According to a recent survey in Albania, 10% of self-employed and managers used savings accumulated abroad. By the end of the1990s, it was found that migrant savings accounted for 17% of investment in Albanian firms (*ibid*.).

As a relatively new host country, Greece has improved its economic relations with Balkan countries, from which the majority of Greek migrants now originate. Several Greek banks have opened branches in Albania, Bulgaria, Romania and the former Yugoslavia, a decision that has helped immigrants transmit remittances, facilitating their channelling into productive investment in those countries (Glytsos and Katseli, 2005). Just as years ago, the Greek banks opened branches in countries with Greek migrants, the American Albanian Bank opened, about six months ago, a branch in Athens and plans another one in Northern Greece to attract deposits of Albanians and to transfer their remittances to Albania at a lower cost compared to other channels of transmission.

3. For a recent discussion of the problems of legalisation, the post-legalisation situation and the issues of integration of immigrants in Greece, see Glytsos (2005).

Conclusion

The experience of Greece in policies for attracting remittances and channelling them to productive uses is not so encouraging as to be emulated by others. Neither the motivation to attract more remittances nor the incentives for their investment were generally appealing to migrants and recipients.

The frequent problems in the economy, the administration of the state and the political situation in Greece at the peak period of migration could not establish a favourable climate of financial security and investment stability, prerequisites that seem to count more than some satisfactory temporary return on savings and investment of unpredictable duration. But besides that, for a considerable period of time, remittances in general and those coming from Europe in particular, were covering the essential vital needs of recipients, and there could be no question of investing them in what are usually considered as productive outlets.

Notwithstanding, some particular private initiatives or government policies have attracted more official remittances to the country. A case in point seems to be the operation of Greek banks in some towns and cities in host countries with high concentrations of Greeks. Another is the provision of tax allowances along with favorable special deposits in banks for the purpose of buying real estate, which has for some time brought more remittances to Greece. Incentives for investing remittances productively, such as subsidisation, tax allowances, or privileged treatment of production co-operatives that were created and run by migrants had only a very limited appeal.

The inadequacies or ineffectiveness of policies in directing remittances to productive investment and transforming migrant workers to entrepreneurs, does not however mean that remittances did not bring benefits to Greece. Despite some restraints imposed to the faster restructuring of the economy – with no guarantee that it would happen sooner in the absence of remittances – the uninterrupted continuation of even fluctuating remittance flows up to the present day, counterbalances some of the negative structural effects.

The beneficial impact of remittances, particularly during the 1960s and 1970s, may be accounted as follows: first, as foreign exchange, they alleviated the chronic balance of payments deficit; second, they were sustaining a standard of living for a large number of recipients, much higher than it would have been possible without remittances; and third, their diffusion in the economy at large, in whatever way they are spent, was inducing more production not only of consumer goods but also of capital goods, through the multiplier effect, and they also sustained a certain level of employment. The impact of remittances was particularly beneficial in regions with high emigration, injecting doses of higher purchasing power in their economies, a part of which stimulated local production of goods and services and another part was transmitted to other regions promoting regional development, with further diffused macroeconomic effects in the whole economy.

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Table 12.1. Workers' remittances to Greece

1965	1970	1975	1980	1990	1995	1997	2000	2002
Remittances (USD million)								
207	345	782	1 083	1 774	2 982	2 816	1 613	1 181
Remittances as a proportion of exports (%)								
63.1	55.2	35.1	26.4	27.9	51.6	52.4	17.0	12.9

Source: IMF, *International Financial Statistics Yearbook* (various issues).

Table 12.2. Selected characteristics of east Macedonia and Thessaly regions

Characteristics	East Macedonia	Thessaly	Greece
Population	**426 000**	**696 000**	**9 740 000**
Elements of similarities			
Per Capita Output (in drachmas),1979	112 700	113,000	130 700
Index of Agricultural Productivity (Greece=100), 1979	93.3	93.4	100.0
Growth Rate of Output (%) 1970-79	4.6	4.4	3.2
Natural Population Increase (per thousand), 1961	11.5	11.1	10.4
Population over 65 years of age (%) 1961	7.5	7.1	8.1
Migration and remittances			
Migrant Remittances (thousand USD)			
1955-1964	14 374	6 259	176 800
1955-1974	65 950	33 039	645 300
Per Capita (of Population) Remittances 1974	4 575	1 343	1 447
Post-migration situation			
Natural Population Increase (per thousand)			
1971	5.0	8.7	7.7
1981	2.9	7.5	6.6
Population over 65 years of age (%)			
1971	11.5	10.2	10.9
1981	13.7	12.7	12.7
Employment structure			
Primary sector			
1971	63.4	56.4	40.0
1981	49.4	47.6	29.1
Secondary sector	114.0		
1971	14.8	20.3	27.4
1981	24.0	24.2	30.5
Tertiary sector			
1971	19.8	23.3	32.6
1981	26.6	28.2	40.4
Change in the Living Standard (1971=100) 71-80	311.2	282.5	208.5
Change in Agricultural Productivity (1971=100) 71-80	163.0	135.0	148.0
Change in Production Means (1971=100), 71-80	254.2	251.4	224.2

Source: Glytsos (1988b); Voloudakis and Panourgias; estimates of the author.

Table 12.3. Change in the consumption patterns induced by remittances in the regions of East Macedonia and Thessaly, 1974

Rough estimates

Expenditure category	Percentage change	
	East Macedonia	Thessaly
Food	19.3	5.7
Beverages and tobacco	1.6	0.8
Apparel, footwear	8.8	2.1
Housing, public utilities	21.2	6.4
Durable consumer goods	34.7	10.0
Health, personal care	21.6	6.8
Education, recreation	54.7	16.0
Transport, communications	42.2	12.7
Miscellaneous	-4.8	-1.2
Total	**20.3**	**6.0**

Source : NSSG (1974), *Household Survey;* author's estimates.

Table 12.4. Empirical findings of the effects of remittances in Greece

Individual effects on remittance recipients

Remittances doubled consumption, with priority on education, with a multiplier of 3.3 and recreation with a multiplier of 2.1

Macro-level effects

Contribution to GDP, 4.1% (actual growth rate 8%), with a multiplier of 1.7

In one-third of industries (including construction) a multiplier of 2

Imports made up 12.8% of induced gross production

Imports of investment goods made up 26.9% of induced imports

22% of remittances went to imports

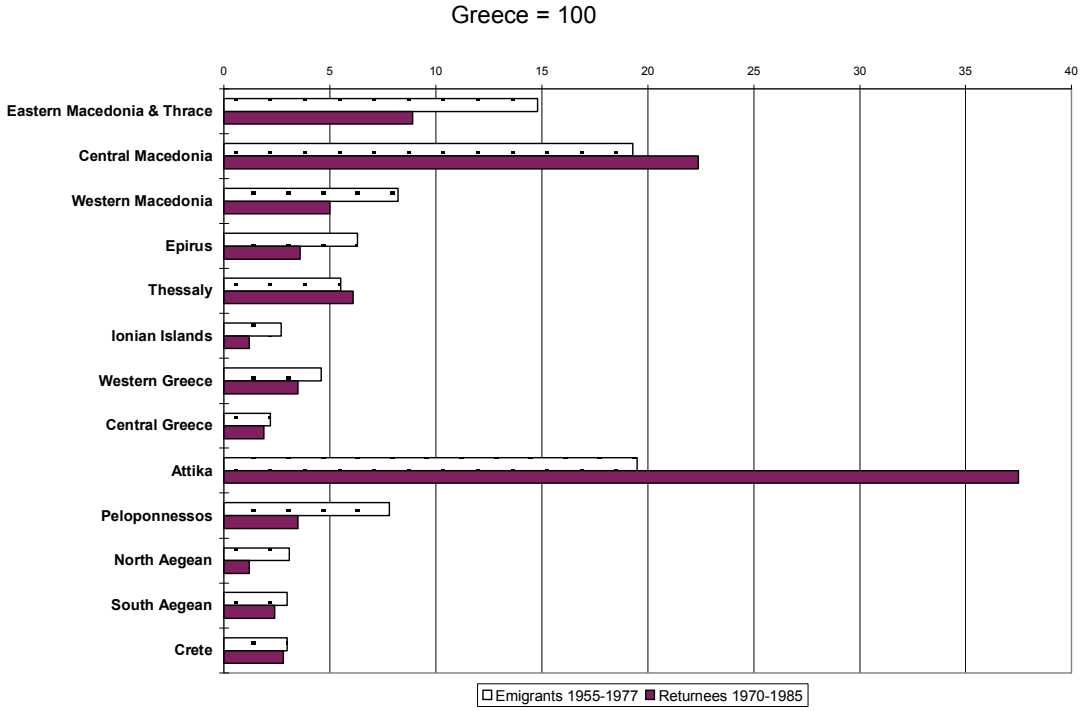
Induced imports represented 4.9% of Greece's total imports

Remittances supported 4.7% of employment in Greece

Remittances supported 8% of capital capacity in manufacturing

Source: Glytsos (1993).

Figure 12.1. Regional shares of emigrants (1955-1977) and returnees (1970-1985)



Source: Elaboration from Glytsos (1991), pp. 189-192 (for emigrants). Elaboration from General Secretariat of Greeks Abroad, Petropoulos *et al*. (1992), Vol. B, p. 72 (for returnees).

CHAPTER 13.

DO INTERNATIONAL MIGRATION AND REMITTANCES REDUCE POVERTY IN DEVELOPING COUNTRIES?*

by

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Introduction

International migration is one of the most important factors affecting economic relations between developed and developing countries in the 21st century. At the start of the century, it was estimated that about 175 million people – roughly 3% of the world population – lived and worked outside the country of their birth (United Nations, 2002). The international remittances sent back home by these migrant workers have a profound impact on the developing countries of Asia, Africa, Latin America and the Middle East. According to *Global Development Finance* (World Bank, 2004), official international remittances sent home by migrant workers represent the second most important source of external funding in developing countries.[1] Official international remittances now total USD 93 billion per year (Ratha, 2004), and are about twice as large as the level of official aid-related inflows to developing countries.[2]

Despite the ever-increasing size of official international remittances, very little attention has been paid to analysing the poverty impact of these financial transfers on developing countries. While a small handful of studies have examined the impact of international remittances on poverty in specific village or country settings,[3] the authors are not aware of any studies which examine the impact of international remittances on poverty in a broad range of developing countries.

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1. Foreign direct investment (FDI) is the most important source of external funding for developing countries.

2. In addition to those international remittances which return through official banking channels, a large and unrecorded amount of remittance monies is transmitted through unofficial and informal channels. One recent International Monetary Fund study (El-Qorchi, Maimbo and Wilson, 2003) estimated that unofficial transfers of remittances to the developing world currently amount to USD 10 billion per year.

3. See, for example, Adams (1991; 1993), Taylor (1992), Gustafson and Makonnen (1993), Taylor, Zabin and Eckhoff (1999), and Stark (1991).

Two factors seem to be responsible. The first is a lack of poverty data; it is quite difficult to estimate accurate and meaningful poverty headcounts in a broad and diverse range of developing countries. The second factor relates to the nature of data on international migration and remittances. Not only do few developing countries publish records on migration flows, but many developed countries which do keep records on migration tend to undercount the large number of illegal migrants living within their borders. At the same time, the available data on international remittances do not include the large (and unknown) sum of remittance monies which are transmitted through informal, unofficial channels. As a result of these data problems, many key questions remain unanswered. Exactly what is the effect of international migration on poverty in the developing world? How do the official remittances sent home by international migrants affect the level, depth and severity of poverty in the developing world?

This chapter proposes to answer these and similar questions, using a new data set composed of 71 developing countries. This data set includes all those low and middle-income developing countries for which reasonable information on poverty, inequality, international migration and remittances could be assembled. It includes countries drawn from each major region of the developing world: Latin America and the Caribbean, Middle East and North Africa, Europe and Central Asia, East Asia, South Asia and Sub-Saharan Africa.

The chapter is organised as follows. The first section sets the stage by reviewing the findings of recent village or country-level studies on the relationship between international migration, remittances, inequality and poverty. The second section presents the new data set, and describes how these data are used to calculate the relevant migration, remittances and poverty variables. The third section uses the new data to econometrically estimate the impact of two variables – international migration and remittances – on poverty in the developing world. This part finds that both international migration and remittances reduce the level, depth and severity of poverty in the developing world. However, it is possible that these variables may be endogenous to poverty: that is, international migration and remittances may reduce poverty in the developing world, but poverty in the developing world may also affect the number of international migrants being produced and the level of remittances being received. For this reason, the fourth section employs an instrumental variables strategy to isolate the overall effect of these two variables on poverty. The main instruments employed in this section are distance between remittance-sending and receiving countries, level of education and government stability. Using these three variables as instruments, the chapter finds that instrumented international migration and remittances still reduce the level, depth and severity of poverty in developing countries. The final section summarises the findings and presents policy implications.

Recent studies on international migration, remittances and poverty

There is little agreement and scant information in the literature concerning the impact of international migration and remittances on poverty. Stahl (1982, p. 883), for example, writes that "migration, particularly international migration, can be an expensive venture. Clearly it is going to be the better-off households which will be more capable of (producing international migrants)". Similarly, Lipton (1980, p. 227), in a study of 40 villages in India that focuses more on internal than international migration, found that "migration increases intra-rural inequalities ... because better-off migrants are 'pulled'

towards fairly firm prospects of a job (in a city or abroad), whereas the poor are 'pushed' by rural poverty and labour-replacing methods".

Other analysts, however, suggest that the poor can and do benefit from international migration and remittances. For example, Stark and Taylor (1989, pp. 12-14) find that in rural Mexico "relatively deprived" households are more likely to engage in international migration than are "better off" households. In a similar vein, Adams (1991, pp. 73-74) finds that in rural Egypt, the number of poor households declines by 9.8% when household income includes international remittances, and that remittances account for 14.7% of total income of poor households.

While the findings of these past studies are instructive, their conclusions are of limited usefulness due to small sample size. For instance, the findings of Stark, Taylor and Yitzhaki are based on 61 households from two Mexican villages, while those of Adams are based on 1 000 households from three Egyptian villages. Clearly, there is a need to extend the scope of these studies to see if their findings hold for a larger and broader collection of developing countries.

New data on international migration, remittances, inequality and poverty

The evaluation of the impact of international migration and remittances on poverty in developing countries is based on a new data set that includes information on international migration, remittances, inequality and poverty for 71 "low-income and middle-income" developing countries.[4] These countries were selected because it was possible to find relevant migration, remittances, inequality and poverty data for all of them since the year 1980.[5] As it was not easy to assemble this data set, and data problems still plague this (and all other) studies on international migration and remittances, it is useful to spell out how this information was assembled.

In the case of migration, few, if any, of the major labour-exporting countries publish accurate records on the number of international migrants that they produce. It is therefore necessary to estimate migration stocks and flows by using data collected by the main labour-receiving countries. For the purposes of this chapter, the main labour-receiving countries (regions) include two: United States and the OECD (Europe), excluding North America and Asia.[6] Unfortunately, no data are available on the amount of migration to the third and fourth most important labour-receiving regions in the world, the Arab Gulf and South Africa.

Because of their importance to labour-exporting countries, remittance flows tend to be the best measured aspect of the migration experience. For instance, the International Monetary Fund (IMF) keeps annual records of the amount of worker remittances received

4. Low-income and middle-income countries are those which are classified as such by the World Bank (2000, pp. 334-335). Low-income includes countries with 1999 GNP per capita USD 756 or less; middle-income includes countries with 1999 GNP per capita of USD 756 to USD 9 265.

5. In line with other cross-national studies of poverty, 1980 was selected as a cutoff point because the poverty data prior to that year are far less comprehensive. See, for example, Ravallion and Chen (1997) and Adams (2004).

6. For the purposes of this study, OECD (Europe) includes 21 countries: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxemburg, Netherlands, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland and United Kingdom.

by each labour-exporting country.[7] However, as noted above, the IMF only reports data on *official* worker remittance flows, that is, remittance monies which are transmitted through official banking channels. Since a large (and unknown) proportion of remittance monies is transmitted through private, unrecorded channels, the level recorded by the IMF underestimates the actual flow of remittance monies returning to labour-exporting countries.

Finally, with respect to poverty, many developing countries – especially the smaller population countries – have not conducted the type of nationally-representative household budget surveys that are needed to estimate poverty. For example, of the 157 developing countries classified as low or middle-income by the World Bank,[8] only 81 countries (52%) have published the results of any household budget survey. Of these countries, missing data on income inequality reduced the size of the data set used in this chapter to 71 countries.[9]

Annex Table A1 gives the countries, regions, poverty, inequality, migration and remittances indicators included in the new data set. The data set includes a total of 184 observations: an observation is any point in time for which data on income, poverty and inequality exist. The data set is notable in that it includes 36 observations (from 18 countries) in Sub-Saharan Africa, a region for which migration, remittances and poverty data are relatively rare. It also includes observations from countries in all other regions of the developing world.

Annex Table A1 reports three different poverty measures. The first, the headcount index, set at USD 1 per person per day, measures the percentage of the population living beneath that poverty line at the time of the survey.[10] However, the headcount index ignores the "depth of poverty", that is, the amount by which the average expenditures (income) of the poor fall short of the poverty line.[11] The poverty gap index, which measures in percentage terms how far the average expenditures (income) of the poor fall short of the poverty line, is also reported. For instance, a poverty gap of 10% means that the average poor person's expenditures (income) are 90% of the poverty line. The third poverty measure – the squared poverty gap index – indicates the severity of poverty. The squared poverty gap index possesses useful analytical properties, because it is sensitive to changes in distribution among the poor.[12]

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7. The International Monetary Fund (IMF) records annual flow in international remittances in its publication, *Balance of Payments Statistics Yearbook* (Washington, DC).

8. For a full list of these 157 developing countries, see World Bank (2000, pp. 334-335).

9. For example, China was eliminated from the data set because of missing income inequality data for the nation as a whole.

10. To ensure compatibility across countries, all of the poverty lines in Annex Table A1 are international poverty lines, set at estimates of USD 1.08 per person per day in 1993 purchasing power parity (PPP) exchange rates. The PPP exchange rates are used so that USD 1.08 is worth roughly the same in all countries. PPP values are calculated by pricing a representative bundle of goods in each country and comparing the local cost of that bundle with the US dollar cost of the same bundle. In calculating PPP values, the comparison of local costs with US costs is done using conversion estimates produced by the World Bank.

11. In this chapter, the terms "expenditure" and "income" are used interchangeably.

12. While a transfer of expenditures from a poor person to a poorer person will not change the headcount index or the poverty gap index, it will decrease the squared poverty gap index.

To measure inequality, Annex Table A1 uses the Gini coefficient. In the table, this measure is normalised by household size, and the distributions are weighted by household size so that a given quintile (such as the lowest quintile) has the same share of population as other quintiles across the sample.

The remaining variables in Annex Table A1 – international migration as share of country population and per capita official international remittances – are of key importance to this study. Since these two variables must be estimated using some rather heroic assumptions, it is crucial to discuss each variable in turn.

In the absence of detailed records on international migration in the labour-exporting countries, the migration variable in this study is estimated by combining data from the two main labour-receiving regions of the world: the United States and OECD (Europe). Specifically, the migration variable is constructed using three steps. The first step uses data from the 1990 and 2000 US Population Censuses on the "place of birth for the foreign-born population". While these data are disaggregated by country of birth for about 50 different labour-exporting countries, it is not at all clear whether all of these "foreign-born" people are in fact international migrants. For example, a person born in Mexico and brought to the United States as an infant would probably not consider himself as a migrant. Moreover, it is also not clear how many of those who enter the United States illegally are in fact included in the "foreign-born" population figures. As some observers have suggested, the US Census data may be grossly undercounting the actual migrant population that is living – legally or illegally – in the United States.[13]

The second step in calculating the migration variable is to estimate the number of "foreign born" living in the OECD (Europe), excluding North America and Asia.[14] Unfortunately, the OECD (Europe) data are not as detailed as the US Census data, and differ from the United States data in several key ways. Most basically, the OECD (Europe) data use a different way of classifying immigrants. Since US-born children of immigrants have US citizenship, the United States defines an immigrant as a person who was born abroad to non-US citizens. Most OECD (Europe) countries, however, follow an ethnicity-based definition of immigration status. This method classifies a person on the basis of the ethnicity of the parent, rather than on place of birth. Thus, a child of Turkish parents born in Germany is typically classified as an immigrant. This different way of classifying immigrants has the net effect of increasing the stock of immigrants in any particular OECD (Europe) country, and perhaps biasing our estimates by including a number of "migrants" who were actually born, raised and educated in that OECD (Europe) country. Another key difference between the OECD (Europe) data and the United States data has to do with the number of labour-exporting countries recorded. While the US Census data can be used to count the number of "foreign-born" (or migrants) from about 50 different countries, the OECD (Europe) data only record the number of "foreign-born" (or migrants) in each European country coming from ten or fifteen countries. While this is not a significant problem for large-labour exporting countries (like Turkey), which send many migrants to Europe, it is a problem for smaller labour-exporting countries, like Brazil or Sri Lanka, where the actual number of migrants to any particular European country might not be recorded at all.

13. In 2002 the stock of illegal immigrants in the United States was estimated at 9.3 million, or about 26% of the total stock of the "foreign-born" population. See Passel, Capps and Fix (2004).

14. All of the data on the "foreign-born" population living in the OECD (Europe) comes from *Trends in International Migration,* OECD, Paris, various years.

The final step in calculating the migration variable is to take the sum of the "foreign born" from each labour-exporting country that are living in either the United States or the OECD (Europe) and divide this sum by the population of each developing country. These "migration as share of country population" figures are the ones which appear in Annex Table A1. In all likelihood, these figures seriously under-estimate the actual number of international migrants produced by any given labour-exporting country, because they do not include the large number of illegal migrants working in the United States and OECD (Europe). These figures also do not count the unknown number of international migrants working in other labour-receiving regions (like the Arab Gulf).

The process of defining the remittances variable in Annex Table A1 is more straightforward, but it also involves one heroic assumption. All remittance data comes from the International Monetary Fund (IMF) *Balance of Payments Statistics Yearbook*. As noted above, the main problem with these data is that they count only remittance monies which enter through official banking channels; they do not include the large (and unknown) amount of remittance monies which are sent home through private, unofficial channels. For example, in one major labour-exporting country – Egypt – it has been estimated that unofficial remittances amount to between one-third and one-half of total remittances.[15] For this reason, it is likely that the "official remittance" figures reported in Annex Table A1 are gross under-estimates of the actual level of total remittances (official and unofficial) entering each labour-exporting county.

International migration, remittances and poverty: OLS results

In this section, the cross-country data is used to analyse how international migration and remittances affect poverty in the developing world. Using the basic growth-poverty model suggested by Ravallion (1997) and Ravallion and Chen (1997), the relationship to be estimated can be written as:

$$\text{Log } P_{it} = \alpha_i + \beta_1 \log \mu_{it} + \beta_2 \log (g_{it}) + \beta_3 \log (x_{it}) + \varepsilon_{it} \qquad (1)$$

$$(i = 1, \ldots, N; t = 1, \ldots, T_i)$$

Where P is the measure of poverty in country i at time t, α_i is a fixed effect reflecting time-differences between countries, β_1 is the "growth elasticity of poverty" with respect to mean per capita income given by μ, β_2 is the elasticity of poverty with respect to income inequality given by the Gini coefficient, g, β_3 is the elasticity of poverty with respect to variable x (such as international migration or remittances) and ε is an error term that includes errors in the poverty measure.

Equation (1) represents the basic model of poverty determination used by a host of researchers.[16] The model assumes that economic growth – as measured by increases in mean per capita income – will reduce poverty. The relationship between poverty and the income variable is therefore expected to be negative and significant. The model also assumes that the level of income inequality affects poverty reduction. Since past work has shown that a given rate of economic growth reduces poverty more in low-inequality countries, as opposed to high-inequality countries,[17] the income inequality variable is

15. Adams (1991, p. 13).

16. In addition to Ravallion (1997) and Ravallion and Chen (1997), see Squire (1993), Collier and Dollar (2001) and Bhalla (2002).

17. On this point, see Birdsall and Londono (1997) and Ravallion (1997).

expected to be positive and significant. The innovation in this study is to introduce into equation (1) a variable measuring the level of international migration or remittances. Controlling for income and its distribution, the hypothesis tested that countries producing more international migrants or receiving more international remittances will have less poverty.

The income variable in equation (1) can be measured in two different ways: 1) per capita GDP, in purchasing power parity (PPP) units, as measured from national accounts data; and 2) per capita survey mean income (expenditure), as calculated from household budget surveys done in the various developing countries. As Deaton (2001) and others have shown,[18] these two measures of income typically do not agree. Income (expenditure) as measured by household surveys is calculated from the responses of individual households. However, income as measured by GDP data comes from the national accounts, which measure household income as a residual item, so that errors and omission elsewhere in the accounts automatically affect the calculation of household income (expenditure). Since the national accounts data also include many items (such as the expenditures of nonprofit organisations and the imputed rent of owner-occupied dwellings) which are not included in the household surveys, it is little wonder that the two measures of income do not correspond.

For the purposes of this study, equation (1) will b e estimated using both measures of income. It should be noted that neither measure of income includes international remittance income. The GDP data from national accounts should not include remittance income from abroad, and experience with household budget surveys suggests that most of these surveys do not adequately capture international remittance income because they do not include questions on remittances.[19]

Other researchers have often estimated equation (1) in first differences, in order to deal with possible correlation problems between the variables, since the dependent and independent variables are drawn from the same single source of data (household budget surveys).[20] In this study, however, equation (1) will be estimated as a level equation since the dependent and independent variables come from different sources of data: the dependent variable being drawn from household budget surveys and the independent variables (for GDP, international migration and international remittances) from various other sources.[21]

Equation (1) will also be estimated using the two measures of international migration and remittances developed in the last section: international migration as a share of country population and per capita official international remittances received by a developing country. Given all of the problems involved in constructing these two variables, as well as the fact that a number of the countries still have missing/incomplete migration or remittance data, it is not surprising that these two measures are not highly correlated in the data set (simple correlation of 0.579). Moreover, it is likely that a sizeable share of international migrants may migrate, but not remit. For all of these

18. See Deaton (2001, pp. 125-147) and Adams (2004).

19. However, in those household surveys where survey mean income is proxied by survey mean expenditure, the income variable may, to some extent, capture the impact of remittances income on household expenditure.

20. See, for example, Ravallion and Chen (1997).

21. When equation (1) is estimated using survey mean income, the dependent and independent variables in the equation are both based on data from household budget surveys.

reasons, it seems useful to use each of these measures to test the robustness of the findings regarding the impact of international migration and remittances on poverty in the developing world.

Using the international migration data, the OLS estimates of equation (1) are presented in Table 13.1 (using per capita GDP) and Table 13.2 (using survey mean income). To control for fixed effects by geographic region of the world, five regional dummy variables are added to the model.[22] In each table, results are shown first without, and then with, regional dummies. Since all of the variables are estimated in log terms, the results can be interpreted as elasticities of poverty with respect to the relevant variable.

In Tables 13.1 and 13.2, the coefficients for both of the income variables – per capita GDP and survey mean income – are of the expected (negative) sign and statistically significant in all cases. In both tables, the poverty elasticities with respect to income inequality (Gini coefficient) are also of the expected (positive) sign, and their magnitude is consistent with other recent analyses of poverty reduction (Adams, 2004; Ravallion, 1997). However, the results for the model as a whole are better and more precise in Table 13.2, using survey mean income: the R^2 measures increase from the 0.4-0.7 range to 0.6 to 0.8. For this reason, the focus will be on Table 13.2.

When the dependent variable in Table 13.2 is poverty headcount or poverty gap, the results for the international migration variable are negative and statistically significant. However, when the dependent variable is squared poverty gap, the international migration variable is not significant. For the poverty headcount measure, the estimates suggest that, on average, a 10% increase in the share of international migrants in a country's population will lead to a 1.4% decline in the share of people living on less than USD 1.00 per person per day.

Table 13.3 (using per capita GDP) and Table 13.4 (using survey mean income) show the results when equation (1) is estimated using international remittances data. Since the results for the model are better and more precise in Table 13.4 using survey mean income, we will focus on these results.

The remittances variable in Table 13.4 – per capita official international remittances – has a negative and statistically significant impact on each of the three poverty measures: headcount, poverty gap and squared poverty gap. Estimates for the poverty headcount measure suggest that, on average, a 10% increase in per capita official international remittances will lead to a 1.8% decline in the share of people living in poverty. Table 13.4 shows that remittances will have a slightly larger impact on poverty reduction when poverty is measured by the more sensitive poverty measures: poverty gap and squared poverty gap.

Official international remittances and poverty: IV results

As noted at the outset, one possible problem with equation (1) is that it assumes that all of the right hand side variables in the model – including international migration and remittances – are exogenous to poverty. However, it is possible that these two variables may be endogenous to poverty. Reverse causality may be taking place: international migration and remittances may be reducing poverty, but poverty may also be affecting the

22. The five regional dummy variables are those for East Asia, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, and South Asia. Sub-Saharan Africa is the omitted regional dummy.

share of migrants being produced and the level of international remittances being received. Without accounting for this reverse causality, all of the estimated coefficients in Tables 13.1 to 13.4 may be biased.

One way of accounting for possible endogenous regressors is to pursue an instrumental variables approach. This is the strategy adopted in this section. In the data set there are three possible instruments for the international migration and remittances variables. The first instrument is distance (miles) between the remittance-sending area [US, OECD (Europe) or the Persian Gulf] and the remittance-receiving country.[23] This variable seems like a good instrument because various studies of the determinants of international migration have found that distance between labour-receiving and exporting countries is usually negatively and significantly related to the level of international migration. For example, in a study of migration rates to the United States from 81 developing countries, Hatton and Williamson (2003, p. 11) find that distance from the United States is negatively and significantly related to the level of international migration from that country.[24] A second instrument for the international migration and remittances variables is education, specifically, the percentage of the population over age 25 that has completed secondary education in a developing country. This variable seems useful because human capital theory suggests that education is positively related with international migration (and presumably international remittances) because educated people typically enjoy greater employment and income-earning opportunities in labour-receiving countries.[25] The final instrument that can be used is government stability,[26] which is a measure of the level of political stability in each country. The expected outcome of this variable is not straightforward. Holding other factors constant, it would be expected that countries with more unstable governments would produce larger numbers of international migrants. However, whether or not these increased numbers of migrants will produce larger levels of remittances would depend on the extent to which political instability affects the incentives of migrants to remit. Since migrants remit for both altruistic and economic reasons, the net impact of political instability – probably positive for altruistic motives, as migrants seek to cushion their relatives from instability, and probably negative for economic motives to the extent that political instability undermines the investment climate – is ambiguous.

Tables 13.5 and 13.6 present the first-stage instrumental variables regression results when various combinations of these variables are used to instrument international migration and remittances, respectively. In each table, equations 1-4 present the results when the exogenous variables include per capita GDP, and equations 5-8 present the results when the exogenous variables include survey mean income. In both tables,

23. In this study, distance between remittance-sending region [United States, OECD (Europe) or Persian Gulf] and remittance-receiving country is measured for each individual developing country as the miles between the borders of that country and the main region from which it receives remittances. For example, for Latin American countries it is the distance to the United States, for North African countries it is the distance to OECD (Europe) and for South Asian countries it is the distance to the Persian Gulf.

24. For other empirical studies of the relationship between distance and international migration, see Karemera, Oguledo and Davis (2000), and Vogler and Rotte (2000).

25. See, for example, Harris and Todaro (1970).

26. Government stability is measured by ratings published on a monthly basis by the PRS Group in the *International Country Risk Guide*. These ratings for "government stability" have a scale of zero to 12, with zero representing countries with "very unstable government" to 11 representing those countries with "very stable government". For instance, in June 2002 the United States had a "government stability" rating of 11, while Poland had a rating of 6.

the IV equations containing only the distance variable are arguably the most exogenous and have the single highest predictive power (R^2 from 0.44 to 0.48). As expected, the distance variable is always negative and highly significant, suggesting that as the distance between remittance-sending and receiving countries increases, the level of international migration and remittances received falls. When instrumenting for international migration (Table 13.5), the education variable is positive and highly significant. As hypothesised, this implies that countries with a higher share of educated people also produce more international migrants. The other variable – government stability – is statistically insignificant in both tables, and therefore subject to weak instrument concerns. However, when all three variables are combined together – equations 4 and 8 in Tables 13.5 and 13.6 – the p-values for the F-statistic of the excluded instruments are all less than 0.01 for the prediction of international migration and remittances, while the F-statistics themselves are over 8. When using all three variables as instruments, international migration is predicted somewhat better than official international remittances, but the F-statistics still show instrument relevance.

Tables 13.7 to 13.10 present the second-stage IV results when the international migration and remittance variables are instrumented by all three variables: distance, education and government stability. Tables 13.7 and 13.8 present the IV results for international migration, using per capita GDP and survey mean income, respectively. Tables 13.9 and 13.10 present these IV results for official international remittances, using the same income measures.

Comparing the IV and OLS estimates for international migration (Tables 13.1-13.2 and 13.7-13.8), we find out that the coefficients for the instrumented international migration variable in Tables 13.7 and 13.8 are more negative, and of greater significance. This is true using either per capita GDP or survey mean income data. Comparing the IV and OLS estimates for official international remittances (Tables 13.3-13.4 and 13.9-13.10) yields similar results. For example, using survey mean income, while the IV estimates for the poverty headcount measure suggest that, on average, a 10% increase in per capita official remittances will lead to a 3.5% decline in the share of people living in poverty (Table 13.10), the OLS estimates suggest that a similar increase in official remittances will lead to only a 1.8% decline in the share of poor people (Table 13.4).

Considered as a whole, the IV results suggest that after instrumenting for the possible endogeneity of international migration and remittances, these two variables still have a negative and statistically significant impact upon poverty. When using IV estimates, this impact on poverty is strongest using survey mean income data. When using survey mean income, instrumented international migration has a negative and significant impact on two of the three poverty measures – poverty headcount and poverty gap (Table 13.8), while instrumented official international remittances has a negative and significant impact on all three of the poverty measures (Table 13.10).

In Table 13.10, the relative magnitudes of the elasticity estimates on survey mean income and instrumented official international remittances imply that an increase in international remittances has about twice the poverty-reducing impact as an increase in other sources of household income. Evaluated at the sample mean, an increase in USD 1.00 in instrumented per capita official international remittances (from USD 17.15 to USD 18.15) will lead to a 2.04% reduction in the poverty headcount. By comparison, at the sample mean, a USD 1.00 increase in per capita survey mean income (from

USD 1 628.60 to USD 1 629.60) will yield a 0.98% reduction in the poverty headcount.[27] In other words, dollar for dollar the income remitted by migrants from abroad reduces poverty much more than income generated by domestic economic activity.

Conclusions and policy implications

This chapter has used a new data set on international migration, remittances, inequality and poverty from 71 developing countries to examine the impact of international migration and remittances on poverty in the developing world. Three findings and two policy implications emerge. First, both international migration and remittances have a strong, statistically significant impact on reducing poverty in the developing world. After instrumenting for the possible endogeneity of international migration, and controlling for level of income, income inequality and geographic region, results for the poverty headcount measure suggest that, on average, a 10% increase in the share of international migrants in a country's population will lead to a 2.1% decline in the share of people living on less than USD 1.00 per person per day. After instrumenting for the possible endogeneity of international remittances, a similar 10% increase in per capita official international remittances will lead, on average, to a 3.5% decline in the share of people living in poverty. The fact that *both* international migration and international remittances reduce poverty in the developing world is important because data on each of these variables is incomplete and subject to under-reporting in many developing countries. By analysing samples which include information on each of these variables, it has been possible to test the migration-remittances-poverty relationship for the largest number of labour-exporting countries possible. The results provide strong, robust evidence of the poverty-reducing impact of both international migration and remittances in the developing world.

The second finding relates to endogeneity. Comparing the instrumented and non-instrumented (OLS) estimates for international migration and remittances in this chapter shows that the coefficients for the instrumented variables are larger and more precisely estimated than those for the non-instrumented variables. This suggests that international migration and remittances may be endogenous to poverty: that is, the hypothesis cannot be excluded that variations in poverty in developing countries cause changes in both the share of migrants going to work abroad and in the level of official international remittances sent home. However, results show that the extent of this endogeneity bias on poverty is not large in absolute terms: the instrumented results suggest that, on average, a 10% increase in per capita official remittances will lead to a 3.5% decline in the share of people living in poverty, while the non-instrumented (OLS) estimates suggest that a similar increase in official remittances will lead to a 1.8% decline in the share of poor people. More work needs to be done on this topic.

The third finding is more of a plea than a conclusion. From the standpoint of future work on this topic, more attention needs to be paid to collecting and publishing better data on international migration and remittances. With respect to international migration, it would be useful if developing countries would start publishing records on the number and destination of their international migrants. In many developing countries, these data are already being collected, but they are not being published. With respect to international remittances, the International Monetary Fund should make greater efforts to count the

27. The relevant calculations from Table 13.10 are as follows. For instrumented per capita international remittances, (18.15/17.15 – 1)*(-0.351) = (-2.046). For survey mean income, (1629.60/1628.60 1)*(-1.590) = (-0.976).

amount of remittance monies that are transmitted through informal, unofficial channels. It is possible that poor people, especially those from countries located near major labour-receiving regions, are more likely to remit through informal, unofficial channels. For this reason, a full and complete accounting of the impact of international remittances (official and unofficial) on poverty in the developing world needs more accurate data on the large level of unofficial remittances returning to developing countries.

The findings point to two policy recommendations. With respect to migration, the positive impact of international migration on poverty makes the policy question of "managing migration" assume greater importance in the international development community. While the international community has paid considerable attention in the past to international movements of goods, services and finance, much less attention has been paid to the international movements of people. The results of this chapter suggest that there would be substantial potential benefits to the world's poor if more international attention were focused on integrating "migration policy" within the larger global dialogue on economic development and poverty reduction. With respect to remittances, the international community needs to take efforts to reduce the current high transaction costs of remitting money to labour-exporting countries. At present, high transactions costs resulting from lack of competition, regulation and/or low levels of financial sector performance in labour-exporting countries act as a regressive tax on international migrants and their families. Lowering the transactions costs of remittances will increase the poverty-reducing impact of international remittances and will also encourage a larger share of remittances to flow through formal financial channels in developing countries.

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Table 13.1. OLS estimates of the effects of international migration on poverty, estimated using per capita GDP

VARIABLE	DEPENDENT VARIABLE = POVERTY HEADCOUNT (USD1.08/PERSON/DAY) (1)	(2)	DEPENDENT VARIABLE = POVERTY GAP (3)	(4)	DEPENDENT VARIABLE = SQUARED POVERTY GAP (5)	(6)
PER CAPITA GDP (CONSTANT 1995 DOLLARS)	-1.177 (-8.84)**	-1.003 (-6.48)**	-1.343 (-8.82)**	-1.295 (-6.43)**	-1.417 (-7.51)**	-1.399 (-5.72)**
GINI COEFFICIENT	3.396 (6.88)**	2.502 (4.90)**	4.170 (7.39)**	3.195 (4.81)**	4.600 (6.93)**	2.926 (3.61)**
INTERNATIONAL MIGRATION (SHARE OF MIGRANTS IN COUNTRY POPULATION)	-0.155 (-2.49)*	-0.085 (-1.52)	-0.120 (-1.68)	-0.101 (-1.38)	-0.023 (-0.27)	-0.015 (-0.17)
EAST ASIA		0.402 (0.98)		0.109 (0.20)		-0.496 (-0.76)
EUROPE, CENTRAL ASIA		-0.959 (-1.87)		-0.459 (-0.69)		-0.356 (-0.44)
LATIN AMERICA		0.257 (0.59)		0.581 (1.02)		0.677 (0.97)
MIDDLE EAST, NORTH AFRICA		-1.691 (-3.65)**		-1.291 (-2.14)*		-1.638 (-2.18)*
SOUTH ASIA		0.468 (1.33)		0.347 (0.76)		-0.180 (-0.29)
CONSTANT	13.550 (10.94)**	11.556 (10.18)**	14.089 (9.96)**	12.733 (8.63)**	14.022 (8.03)**	12.416 (6.81)**
N	109	108	109	108	100	100
ADJ R^2	0.493	0.694	0.481	0.594	0.399	0.504
F-STATISTIC	36.11	31.39	34.41	20.59	22.91	13.59

Notes: All variables expressed in logs. T-ratios shown in parenthesis. Number of observations reduced in table because of missing values. See Annex Table A1 for countries and survey dates.
* Significant at the 0.10 level.
** Significant at the 0.05 level.

Table 13.2. OLS estimates of the effect of international migration on poverty, estimated using survey mean income

	DEPENDENT VARIABLE = POVERTY HEADCOUNT		DEPENDENT VARIABLE = POVERTY GAP		DEPENDENT VARIABLE = SQUARED POVERTY GAP	
VARIABLE	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
PER CAPITA SURVEY MEAN INCOME	-2.336 (-16.85)**	-1.942 (-12.00)**	-2.623 (-15.24)**	-2.437 (-11.89)**	-2.659 (-11.49)**	-2.699 (-10.19)**
GINI COEFFICIENT	4.025 (12.08)**	3.060 (7.68)**	4.798 (11.60)**	3.678 (7.30)**	5.002 (9.29)**	3.675 (5.64)**
INTERNATIONAL MIGRATION (SHARE OF MIGRANTS IN COUNTRY POPULATION)	-0.188 (-4.48)**	-0.136 (-3.12)**	-0.153 (-2.93)**	-0.143 (-2.59)*	-0.048 (-0.69)	-0.086 (-1.19)
EAST ASIA		-0.423 (-1.50)		-0.962 (-2.69)**		-1.609 (-3.53)**
EUROPE, CENTRAL ASIA		-1.046 (-2.98)		-0.674 (-1.52)		-0.445 (-0.78)
LATIN AMERICA		-0.147 (-0.50)		0.037 (0.10)		0.157 (0.33)
MIDDLE EAST, NORTH AFRICA		-1.322 (-3.77)**		-1.268 (-2.86)**		-1.191 (-2.08)*
SOUTH ASIA		-0.054 (-0.20)		-0.344 (0.99)		0.775 (-1.61)
CONSTANT	22.530 (19.09)**	19.214 (15.30)**	23.915 (16.32)**	21.943 (13.81)**	23.436 (11.98)**	22.960 (11.17)**
N	106	106	106	106	100	100
ADJ R^2	0.766	0.817	0.722	0.773	0.598	0.685
F-STATISTIC	116.09	59.71	92.00	45.89	50.11	27.93

Notes: All variables expressed in logs. T-ratios shown in parenthesis. Number of observations reduced in table because of missing values. See Annex Table A1 for countries and survey dates.
* Significant at the 0.10 level.
** Significant at the 0.05 level.

Table 13.3. OLS estimates of the effects of official international remittances on poverty, estimated using per capita GDP

VARIABLE	DEPENDENT VARIABLE = POVERTY HEADCOUNT (USD1.08/PERSON/DAY) (1)	(2)	DEPENDENT VARIABLE = POVERTY GAP (3)	(4)	DEPENDENT VARIABLE = SQUARED POVERTY GAP (8)	(9)
PER CAPITA GDP (CONSTANT 1995 DOLLARS)	-1.129 (-7.78)**	-0.852 (-6.19)**	-1.273 (-7.80)**	-0.961 (-5.27)**	-1.228 (-6.43)**	-0.929 (-4.22)**
GINI COEFFICIENT	2.959 (5.48)**	1.882 (3.91)**	4.266 (7.02)**	3.184 (5.00)**	4.786 (7.33)**	3.271 (4.44)**
PER CAPITA OFFICIAL INTERNATIONAL REMITTANCES	-0.119 (-1.98)*	-0.077 (-1.70)*	-0. 208 (-3.09)**	-0.209 (-3.45)**	-0.215 (-2.82)**	-0.164 (-2.02)**
EAST ASIA		0.065 (0.19)		-0.306 (-0.68)		-0.991 (-1.95)*
EUROPE, CENTRAL ASIA		-1.928 (-5.29)**		-2.198 (-4.55)**		-1.826 (-3.30)**
LATIN AMERICA		-0.147 (-0.47)		-0.128 (-0.31)		-0.314 (-0.65)
MIDDLE EAST, NORTH AFRICA		-2.099 (-6.23)**		-1.748 (-3.92)**		-2.101 (-3.69)**
SOUTH ASIA		0.077 (0.26)		0.165 (0.42)		-0.384 (-0.78)
CONSTANT	13.059 (10.08)**	10.575 (10.55)**	14.095 (9.67)**	11.437 (8.61)**	13.365 (8.01)**	10.567 (6.51)**
N	100	99	100	99	89	89
ADJ R^2	0.427	0.744	0.480	0.679	0.484	0.606
F-STATISTIC	25.66	36.70	31.49	26.89	28.58	17.92

Notes: All variables expressed in logs. T-ratios shown in parenthesis. Number of observations reduced in table because of missing values. See Annex Table A1 for countries and survey dates.
* Significant at the 0.10 level.
** Significant at the 0.05 level.

Table 13.4. OLS estimates of the effect of official international remittances on poverty, estimated using survey mean income

VARIABLE	DEPENDENT VARIABLE = POVERTY HEADCOUNT (USD1.08/PERSON/DAY) (1)	(2)	DEPENDENT VARIABLE = POVERTY GAP (3)	(4)	DEPENDENT VARIABLE = SQUARED POVERTY GAP (5)	(6)
PER CAPITA SURVEY MEAN INCOME	-2.242 (-15.48)**	-1.605 (-10.47)**	-2.593 (-14.29)**	-2.005 (-9.16)**	-2.394 (-11.74)**	-2.059 (-8.44)**
GINI COEFFICIENT	3.646 (10.42)**	2.752 (7.34)**	5.029 (11.47)**	4.095 (7.66)**	5.361 (11.23)**	4.398 (7.29)**
PER CAPITA OFFICIAL INTERNATIONAL REMITTANCES	-0.163 (-3.88)**	-0.176 (-4.48)**	-0. 181 (-3.44)**	-0.208 (-3.70)**	-0.212 (-3.75)**	-0.214 (-3.40)**
EAST ASIA		-0.126 (-0.52)		-0.549 (-1.59)		-1.152 (-3.03)**
EUROPE, CENTRAL ASIA		-1.337 (-4.69)**		-1.365 (-3.36)**		-0.893 (-1.96)*
LATIN AMERICA		-0.044 (-0.20)		-0.052 (-0.16)		-0.094 (-0.26)
MIDDLE EAST, NORTH AFRICA		-1.180 (-3.83)**		-1.091 (-2.49)**		-1.102 (-2.25)*
SOUTH ASIA		0.348 (1.54)		0.269 (0.84)		-0.079 (-0.20)
CONSTANT	16.355 (19.05)**	12.863 (15.86)**	17.896 (16.64)**	14.672 (12.69)**	16.461 (13.77)**	14.446 (11.10)**
N	95	95	95	95	88	88
ADJ R^2	0.762	0.857	0.739	0.797	0.711	0.758
F-STATISTIC	101.25	71.64	89.69	47.25	72.24	35.07

Notes: All variables expressed in logs. T-ratios shown in parenthesis. Number of observations reduced in table because of missing values. See Annex Table A1 for countries and survey dates.
* Significant at the 0.10 level.
** Significant at the 0.05 level.

Table 13.5. First-stage IV estimates for international migration

	INTERNATIONAL MIGRATION , ESTIMATED USING PER CAPITA GDP				INTERNATIONAL MIGRATION , ESTIMATED USING SURVEY MEAN INCOME			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
INSTRUMENTS								
DISTANCE FROM REMITTANCE-SENDING AREA (US, OECD-EUROPE, PERSIAN GULF) TO REMITTANCE-RECEIVING COUNTRY	-1.162 (-6.21)**			-1.328 (-7.53)**	-1.157 (-6.05)**			-1.331 (-7.40)**
PERCENT OF POPULATION OVER 25 YEARS THAT HAS SECONDARY EDUCATION		0.631 (2.38)*		0.913 (4.22)**		0.789 (3.03)**		0.980 (4.59)**
GOVERNMENT STABILITY			0.270 (0.70)	0.137 (0.44)			0.178 (0.47)	0.001 (0.01)
INCLUDED EXOGENOUS VARIABLES								
PER CAPITA GDP (CONSTANT 1995 DOLLARS)	-0.237 (-1.09)	-0.428 (-1.66)	-0.329 (-1.27)	-0.499 (-2.33)*				
PER CAPITA SURVEY MEAN INCOME					-0.541 (-1.86)	-1.089 (-3.21)**	-0.745 (-2.21)*	-0.843 (-3.00)**
GINI COEFFICIENT	0.509 (0.72)	-0.300 (-0.37)	-0.545 (-0.68)	1.041 (1.56)	0.728 (1.06)	-0.109 (-0.15)	-0.331 (-0.42)	1.099 (1.69)
EAST ASIA	2.022 (3.29)**	0.753 (1.05)	1.081 (1.53)	1.436 (2.45)*	1.728 (3.13)**	0.325 (0.51)	0.780 (1.22)	0.983 (1.82)
EUROPE, CENTRAL ASIA	0.358 (0.46)	1.617 (1.90)	2.251 (2.72)**	-0.876 (-1.14)	0.357 (0.50)	1.744 (2.34)*	2.362 (3.19)**	-1.067 (-1.48)
LATIN AMERICA	1.906 (3.09)**	2.691 (3.84)**	2.951 (4.25)**	1.393 (2.35)*	1.720 (3.13)**	2.592 (4.44)**	2.797 (4.61)**	1.090 (2.09)*
MIDDLE EAST, NORTH AFRICA	0.375 (0.50)	2.410 (3.12)**	2.929 (4.05)**	-0.837 (-1.12)	0.315 (0.40)	2.656 (3.68)**	3.151 (4.36)**	-1.001 (-1.30)
SOUTH ASIA	0.232 (0.44)	0.152 (0.24)	0.590 (0.92)	-0.381 (-0.71)	-0.009 (-0.02)	-0.260 (-0.42)	0.309 (0.48)	-0.696 (-1.30)
CONSTANT	8.993 (4.03)**	-0.588 (-0.32)	-0.965 (-0.51)	11.118 (5.05)**	11.527 (4.40)**	4.212 (1.69)	2.551 (0.95)	14.072 (5.51)**
N	117	114	114	111	117	115	113	111
ADJ R^2	0.442	0.259	0.240	0.514	0.451	0.313	0.256	0.538
F-STATISTICS EXCLUDED INSTRUMENTS	42.65	8.46	4.15	12.65	42.65	8.46	4.15	12.65
P-VALUE	0.000	0.004	0.148	0.000	0.000	0.004	0.148	0.000

Notes: All variables expressed in logs. T-ratios shown in parenthesis. Number of observations reduced in table because of missing values. See Annex Table A1 for countries and survey dates. * Significant at the 0.10 level. ** Significant at the 0.05 level.

Table 13.6. First-stage IV estimates for official international remittances

	PER CAPITA INTERNATIONAL REMITTANCES, ESTIMATED USING PER CAPITA GDP				PER CAPITA INTERNATIONAL REMITTANCES, ESTIMATED USING SURVEY MEAN INCOME			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
INSTRUMENTS								
DISTANCE FROM REMITTANCE-SENDING AREA (US, OECD-EUROPE, PERSIAN GULF) TO REMITTANCE-RECEIVING COUNTRY	-1.565 (-6.24)**			-1.929 (-6.25)**	-1.191 (-4.71)**			-1.271 (-4.01)**
PERCENT OF POPULATION OVER 25 YEARS THAT HAS SECONDARY EDUCATION		-0.232 (-0.58)		-0.694 (-1.95)*		0.071 (0.20)		-0.276 (-0.76)
GOVERNMENT STABILITY			0.611 (1.12)	0.328 (0.69)			0.414 (0.87)	0.504 (1.10)
INCLUDED EXOGENOUS VARIABLES								
PER CAPITA GDP (CONSTANT 1995 DOLLARS)	0.505 (1.93)	0.773 (1.74)	0.141 (0.38)	1.358 (3.26)**				
PER CAPITA SURVEY MEAN INCOME					0.440 (1.19)	0.145 (0.31)	0.122 (0.28)	0.611 (1.33)
GINI COEFFICIENT	1.272 (1.34)	-0.593 (-0.46)	0.552 (0.43)	0.264 (0.23)	1.124 (1.22)	0.694 (0.61)	0.994 (0.88)	1.221 (1.13)
EAST ASIA	2.143 (2.97)**	0.660 (0.65)	0.587 (0.66)	3.084 (3.21)**	2.165 (3.29)**	0.763 (0.85)	0.930 (1.31)	2.789 (2.86)**
EUROPE, CENTRAL ASIA	-2.000 (-2.76)**	-0.392 (-0.33)	0.205 (0.17)	-3.164 (-2.61)*	-1.354 (-1.86)	0.210 (0.21)	0.631 (0.66)	-1.107 (-1.03)
LATIN AMERICA	0.084 (0.13)	1.528 (1.80)	1.687 (2.05)*	-0.303 (-0.36)	0.867 (1.54)	1.872 (2.70)	1.923 (3.03)**	1.053 (1.46)
MIDDLE EAST, NORTH AFRICA	-0.864 (-1.05)	2.504 (2.51)*	2.813 (3.35)**	-1.742 (-1.54)	0.651 (0.72)	3.745 (4.25)**	3.733 (4.64)**	0.873 (0.77)
SOUTH ASIA	1.378 (2.46)*	1.957 (2.30)*	1.852 (2.31)*	2.054 (2.60)*	1.566 (2.95)**	1.740 (2.35)*	2.150 (3.09)**	2.173 (2.79)**
CONSTANT	10.914 (3.91)**	-4.645 (-1.42)	-0.791 (-0.28)	7.598 (2.17)*	7.871 (2.37)*	0.040 (0.01)	-0.228 (-0.07)	6.713 (1.64)
N	101	91	91	84	97	90	87	83
ADJ R^2	0.463	0.193	0.177	0.436	0.478	0.305	0.303	0.397
F-STATISTICS EXCLUDED INSTRUMENTS	39.42	4.92	4.23	8.90	39.42	4.92	4.23	8.90
P-VALUE	0.000	0.069	0.047	0.000	0.000	0.069	0.047	0.000

Notes: All variables expressed in logs. T-ratios shown in parenthesis. Number of observations reduced in table because of missing values. See Annex Table A1 for countries and survey dates. * Significant at the 0.10 level. ** Significant at the 0.05 level.

Table 13.7. IV estimates of the effects of international migration on poverty, estimated using per capita GDP

VARIABLE	DEPENDENT VARIABLE = POVERTY HEADCOUNT (USD1.08/PERSON/DAY) (1)	(2)	DEPENDENT VARIABLE = POVERTY GAP (3)	(4)	DEPENDENT VARIABLE = SQUARED POVERTY GAP (5)	(6)
INSTRUMENTED ENDOGENOUS VARIABLE INTERNATIONAL MIGRATION (SHARE OF MIGRANTS IN COUNTRY POPULATION)	-0.526 (-4.36)**	-0.186 (-2.05)*	-0.424 (-3.31)**	-0.280 (-2.37)*	-0.230 (-1.68)	-0.136 (-1.02)
EXOGENOUS REGRESSORS PER CAPITA GDP (CONSTANT 1995 DOLLARS)	-1.031 (-6.20)**	-1.075 (-6.65)**	-1.219 (-6.90)**	-1.406 (-6.66)**	-1.378 (-6.90)**	-1.498 (-5.99)**
GINI COEFFICIENT	3.475 (6.12)**	2.444 (4.71)**	4.219 (7.00)**	3.050 (4.51)**	4.613 (6.85)**	2.840 (3.55)**
EAST ASIA		0.412 (0.96)		0.165 (0.30)		-0.524 (-0.80)
EUROPE, CENTRAL ASIA		-0.782 (-1.43)		-0.119 (-0.17)		-0.174 (-0.21)
LATIN AMERICA		0.485 (0.98)		1.030 (1.60)		0.943 (1.25)
MIDDLE EAST, NORTH AFRICA		-1.300 (-2.49)*		-0.638 (-0.94)		-1.249 (-1.52)
SOUTH ASIA		0.372 (0.98)		0.221 (0.44)		-0.288 (-0.46)
CONSTANT	12.531 (8.28)**	11.880 (10.00)**	13.228 (8.23)**	13.113 (8.46)**	13.783 (7.67)**	12.923 (7.05)**
N	103	102	103	102	96	96
ADJ R^2	0.307	0.671	0.385	0.559	0.380	0.503
F-STATISTIC	30.94	27.39	31.40	18.11	23.43	13.28

Notes: All variables expressed in logs. T-ratios shown in parenthesis. Number of observations reduced in table because of missing values. See Annex Table A1 for countries and survey dates. * Significant at the 0.10 level. ** Significant at the 0.05 level.

Table 13.8. IV estimates of the effect of international migration on poverty, estimated using survey mean income

VARIABLE	DEPENDENT VARIABLE = POVERTY HEADCOUNT (USD1.08/PERSON/DAY) (1)	(2)	DEPENDENT VARIABLE = POVERTY GAP (3)	(4)	DEPENDENT VARIABLE = SQUARED POVERTY GAP (5)	(6)
INSTRUMENTED ENDOGENOUS VARIABLE INTERNATIONAL MIGRATION (SHARE OF MIGRANTS IN COUNTRY POPULATION)	-0.337 (-4.78)**	-0.211 (-3.06)**	-0.230 (-2.78)**	-0.197 (-2.30)*	-0.059 (-0.56)	-0.136 (-1.27)
EXOGENOUS REGRESSORS PER CAPITA SURVEY MEAN INCOME	-2.193 (-14.56)**	-1.956 (-11.66)**	-2.498 (-14.07)**	-2.422 (-11.58)**	-2.575 (-10.93)**	-2.681 (-9.91)**
GINI COEFFICIENT	3.989 (11.30)**	3.001 (7.45)**	4.723 (11.36)**	3.595 (7.16)**	4.916 (9.09)**	3.583 (5.53)**
EAST ASIA		-0.402 (-1.36)		-1.008 (-2.73)**		-1.693 (-3.60)**
EUROPE, CENTRAL ASIA		-0.926 (-2.43)*		-0.668 (1.40)		-0.485 (-0.80)
LATIN AMERICA		0.012 (0.04)		0.097 (0.23)		0.180 (0.34)
MIDDLE EAST, NORTH AFRICA		-1.022 (-2.57)**		-1.115 (-2.24)*		-1.167 (-1.83)
SOUTH ASIA		-0.059 (-0.20)		-0.415 (-1.14)		-0.853 (-1.70)
CONSTANT	21.448 (16.91)**	19.142 (15.01)**	22.95 (15.36)**	21.739 (13.67)**	22.773 (11.51)**	22.788 (11.06)**
N	101	101	101	101	96	96
ADJ R^2	0.726	0.802	0.708	0.764	0.589	0.680
F-STATISTIC	96.33	52.33	83.12	41.53	46.38	23.33

Notes: All variables expressed in logs. T-ratios shown in parenthesis. Number of observations reduced in table because of missing values. See Annex Table A1 for countries and survey dates. * Significant at the 0.10 level. ** Significant at the 0.05 level.

Table 13.9. IV estimates of the effects of official international remittances on poverty, estimated using per capita GDP

VARIABLE	DEPENDENT VARIABLE – POVERTY HEADCOUNT (USD1.08/PERSON/DAY) (1)	(2)	DEPENDENT VARIABLE = POVERTY GAP (3)	(4)	DEPENDENT VARIABLE = SQUARED POVERTY GAP (5)	(6)
INSTRUMENTED ENDOGENOUS VARIABLE PER CAPITA OFFICIAL INTERNATIONAL REMITTANCES	-0.604 (-3.69)**	-0.128 (-1.63)	-0.579 (-3.70)**	-0.304 (-2.92)**	-0.387 (-2.88)**	-0.205 (-1.36)
EXOGENOUS REGRESSORS						
PER CAPITA GDP (CONSTANT 1995 DOLLARS)	-1.085 (-4.52)**	-0.901 (-6.19)**	-1.345 (-5.87)**	-1.121 (-4.59)**	-1.328 (-5.73)**	-1.165 (-4.38)**
GINI COEFFICIENT	3.172 (4.19)**	2.149 (3.95)**	4.662 (6.46)**	3.749 (5.21)**	4.983 (7.33)**	3.947 (4.87)**
EAST ASIA		0.047 (0.12)		-0.133 (-0.27)		-0.787 (-1.42)
EUROPE, CENTRAL ASIA		-1.780 (-3.36)**		-1.749 (-2.50)*		-0.805 (-0.98)
LATIN AMERICA		-0.140 (-0.37)		0.117 (0.23)		-0.089 (-0.15)
MIDDLE EAST, NORTH AFRICA		-1.904 (-4.25)**		-1.113 (-1.88)		-1.589 (-1.97)
SOUTH ASIA		0.148 (0.40)		0.437 (0.89)		-0.124 (-0.19)
CONSTANT	14.199 (6.85)**	11.255 (7.92)**	15.961 (8.07)**	13.037 (6.93)**	14.809 (7.52)**	12.691 (6.15)**
N	83	82	83	82	75	75
ADJ R^2	0.041	0.721	0.379	0.653	0.524	0.597
F-STATISTIC	18.53	27.30	27.17	19.94	27.98	14.10

Notes: All variables expressed in logs. T-ratios shown in parenthesis. Number of observations reduced in table because of missing values. See Annex Table A1 for countries and survey dates. * Significant at the 0.10 level. ** Significant at the 0.05 level.

Table 13.10. IV estimates of the effects of official international remittances on poverty, estimated using survey mean income

VARIABLE	DEPENDENT VARIABLE – POVERTY HEADCOUNT (USD1.08/PERSON/DAY) (1)	(2)	DEPENDENT VARIABLE = POVERTY GAP (3)	(4)	DEPENDENT VARIABLE = SQUARED POVERTY GAP (5)	(6)
INSTRUMENTED ENDOGENOUS VARIABLE PER CAPITA OFFICIAL INTERNATIONAL REMITTANCES	-0.464 (-4.70)**	-0.351 (-3.55)**	-0.421 (-3.68)**	-0.396 (-2.91)**	-0.247 (-2.31)*	-0.283 (-2.24)*
EXOGENOUS REGRESSORS						
PER CAPITA SURVEY MEAN INCOME	-2.00 (-9.87)**	-1.590 (-9.12)**	-2.415 (-10.31)**	-1.986 (-8.26)**	-2.322 (-9.42)**	-2.072 (-8.32)
GINI COEFFICIENT	3.610 (8.14)**	2.950 (6.60)**	5.094 (9.93)**	4.407 (7.15)**	5.351 (10.26)**	4.700 (7.25)**
EAST ASIA		-0.230 (-0.76)		-0.688 (-1.65)		-1.373 (-3.25)**
EUROPE, CENTRAL ASIA		-1.608 (-4.01)**		-1.790 (-3.23)**		-0.929 (-1.51)
LATIN AMERICA		-0.021 (-0.07)		-0.038 (-0.09)		-0.303 (-0.68)
MIDDLE EAST, NORTH AFRICA		-0.614 (-1.24)		-0.533 (-0.78)		-1.026 (-1.54)
SOUTH ASIA		0.443 (1.28)		0.363 (0.76)		-0.145 (-0.28)
CONSTANT	20.965 (12.79)**	17.271 (12.39)**	23.770 (12.53)	20.214 (10.51)**	22.041 (11.05)**	20.264 (10.07)**
N	81	81	81	81	75	75
ADJ R^2	0.642	0.811	0.674	0.756	0.688	0.744
F-STATISTIC	60.26	46.06	60.67	33.11	51.43	27.06

Notes: All variables expressed in logs. T-ratios shown in parenthesis. Number of observations reduced in table because of missing values. See Annex Table A1 for countries and survey dates. * Significant at the 0.10 level. ** Significant at the 0.05 level.

Annex Table A1. Summary of data set on poverty, inequality, international migration and remittances

Country	Survey Year	Region	Poverty Headcount (USD1/person/day)	Poverty Gap (%)	Squared Poverty Gap (%)	Gini Coefficient	Migration as Share of Country Population	Official Remittances (million dollars)	Per capita Official Remittances (constant 1995 dollars)
Algeria	1988	Middle East, North Africa	1.75	0.64	0.48	0.414	2.77	379	15.94
Algeria	1995	Middle East, North Africa	1.16	0.23	0.094	0.353	2.01	1101	39.22
Bangladesh	1984	South Asia	26.16	5.98	1.96	0.258	0.04	527	5.58
Bangladesh	1986	South Asia	21.96	3.92	1.07	0.269	0.04	497	4.98
Bangladesh	1989	South Asia	33.75	7.72	2.44	0.288	0.05	771	7.17
Bangladesh	1992	South Asia	35.86	8.77	2.98	0.282	0.06	848	7.43
Bangladesh	1996	South Asia	29.07	5.88	1.6	0.336	0.09	1217	10.78
Belarus	1988	Europe, Central Asia	0	0	0	0.227	0	0	0
Belarus	1993	Europe, Central Asia	1.06	0.13	0.03	0.216	0	0	0
Belarus	1995	Europe, Central Asia	2.27	0.71	0.46	0.287	0	29	2.84
Bolivia	1990	Latin America	11.28	2.22	0.6	0.42	0.47	2	0.30
Botswana	1985	Sub-Saharan Africa	33.3	12.53	6.09	0.542	0	0	0
Brazil	1985	Latin America	15.8	4.69	1.82	0.595	0.05	25	0.18
Brazil	1988	Latin America	18.62	6.78	3.22	0.624	0.05	19	0.13
Brazil	1993	Latin America	18.79	8.38	5.01	0.615	0.08	1123	7.24
Brazil	1995	Latin America	13.94	3.94	1.46	0.6	0.09	2891	18.12
Brazil	1997	Latin America	5.1	1.32	0.5	0.517	0.11	1324	8.08
Bulgaria	1989	Europe, Central Asia	0	0	0	0.233	0.2	0	0
Bulgaria	1992	Europe, Central Asia	0	0	0	0.308	0.2	0	0
Bulgaria	1995	Europe, Central Asia	0	0	0	0.285	0.2	0	0
Burkina Faso	1994	Sub-Saharan Africa	61.18	25.51	13.03	0.482	0	80	8.19
Central African Rep	1993	Sub-Saharan Africa	66.58	40.04	28.56	0.613	0	0	0
Chile	1987	Latin America	10.2	2.25	0.66	0.564	0.4	0	0
Chile	1990	Latin America	8.26	2.03	0.73	0.56	0.42	0	0
Chile	1992	Latin America	3.91	0.74	0.23	0.557	0.44	0	0
Chile	1994	Latin America	4.18	0.65	0.15	0.548	0.46	0	0
Colombia	1988	Latin America	4.47	1.31	0.57	0.531	0.8	448	13.32
Colombia	1991	Latin America	2.82	0.75	0.32	0.513	0.86	866	24.29
Colombia	1995	Latin America	8.87	2.05	0.63	0.574	1.02	739	19.16
Colombia	1996	Latin America	10.99	3.16	1.21	0.571	1.06	635	16.16
Costa Rica	1986	Latin America	12.52	5.44	3.27	0.344	1.43	0	0
Costa Rica	1990	Latin America	11.08	4.19	2.37	0.456	1.41	0	0
Costa Rica	1993	Latin America	10.3	3.53	1.79	0.462	1.58	0	0
Costa Rica	1996	Latin America	9.57	3.18	1.55	0.47	1.71	122	34.83
Côte d'Ivoire	1985	Sub-Saharan Africa	4.71	0.59	0.1	0.412	0	0	0
Côte d'Ivoire	1987	Sub-Saharan Africa	3.28	0.41	0.08	0.4	0	0	0
Côte d'Ivoire	1993	Sub-Saharan Africa	9.88	1.86	0.54	0.369	0	0	0
Côte d'Ivoire	1995	Sub-Saharan Africa	12.29	2.4	0.71	0.367	0	0	0

Country	Survey Year	Region	Poverty Headcount (USD1/person/day)	Poverty Gap (%)	Squared Poverty Gap (%)	Gini Coefficient	Migration as Share of Country Population	Official Remittances (million dollars)	Per capita Official Remittances (constant 1995 dollars)
Czech Republic	1988	Europe, Central Asia	0	0	0	0.194	1.73	0	0
Czech Republic	1993	Europe, Central Asia	0	0	0	0.266	1.53	0	0
Dominican Republic	1989	Latin America	7.73	1.51	0.42	0.504	4.89	301	43.33
Dominican Republic	1996	Latin America	3.19	0.71	0.26	0.487	7.08	914	116.70
Ecuador	1988	Latin America	24.85	10.21	5.82	0.439	1.38	0	0
Ecuador	1995	Latin America	20.21	5.77	2.27	0.437	1.92	382	33.32
Egypt	1991	Middle East, North Africa	3.97	0.53	0.13	0.35	0.15	2569	47.92
Egypt	1995	Middle East, North Africa	5.55	0.66	0.13	0.283	0.18	3279	56.35
El Salvador	1989	Latin America	25.49	13.72	10.06	0.489	9.06	228	45.38
El Salvador	1996	Latin America	25.26	10.35	5.79	0.522	11.67	1084	187.32
Estonia	1988	Europe, Central Asia	0	0	0	0.229	0	0	0
Estonia	1993	Europe, Central Asia	3.15	0.91	0.51	0.395	0	0	0
Estonia	1995	Europe, Central Asia	4.85	1.18	0.39	0.353	0	0	0
Ethiopia	1981	Sub-Saharan Africa	32.73	7.69	2.71	0.324	0.07	0	0
Ethiopia	1995	Sub-Saharan Africa	31.25	7.95	2.99	0.399	0.09	0	0
Gambia	1992	Sub-Saharan Africa	53.69	23.27	13.28	0.478	0	0	0
Ghana	1987	Sub-Saharan Africa	47.68	16.6	7.81	0.353	0.11	1	0.07
Ghana	1989	Sub-Saharan Africa	50.44	17.71	8.36	0.359	0.12	6	0.41
Ghana	1992	Sub-Saharan Africa	45.31	13.73	5.61	0.339	0.18	7	0.43
Ghana	1999	Sub-Saharan Africa	44.81	17.28	8.71	0.327	0.32	26	1.44
Guatemala	1987	Latin America	47.04	22.47	13.63	0.582	2.09	0	0
Guatemala	1989	Latin America	39.81	19.79	12.59	0.596	2.34	69	8.07
Honduras	1989	Latin America	44.67	20.65	12.08	0.595	2.11	35	7.40
Honduras	1992	Latin America	38.98	17.74	10.4	0.545	2.74	60	11.62
Honduras	1994	Latin America	37.93	16.6	9.38	0.552	3.23	85	15.54
Honduras	1996	Latin America	40.49	17.47	9.72	0.537	3.66	128	22.15
Hungary	1989	Europe, Central Asia	0	0	0	0.233	2.02	0	0
Hungary	1993	Europe, Central Asia	0	0	0	0.279	1.75	0	0
India	1983	South Asia	52.55	16.27	NA	0.32	0.04	2311	3.14
India	1986	South Asia	47.46	13.92	NA	0.337	0.06	2105	2.69
India	1988	South Asia	47.99	13.51	NA	0.329	0.07	2402	2.95
India	1990	South Asia	45.95	12.63	NA	0.312	0.09	1875	2.21
India	1995	South Asia	46.75	12.72	NA	0.363	0.11	7685	8.27
India	1997	South Asia	44.03	11.96	NA	0.378	0.12	10688	11.10
Indonesia	1987	East Asia	28.08	6.08	1.78	0.331	0.01	86	0.51
Indonesia	1993	East Asia	14.82	2.98	0.39	0.317	0.05	346	1.84
Indonesia	1996	East Asia	7.81	0.95	0.18	0.364	0.08	796	4.35
Indonesia	1998	East Asia	26.33	5.43	1.69	0.315	0.1	959	4.71
Iran	1990	Middle East, North Africa	0.9	0.8	NA	0.434	0.63	1	0.02
Jamaica	1988	Latin America	5.02	1.38	0.67	0.431	17.03	76	32.24

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Jamaica	1990	Latin America	0.62	0.03	0.01	0.418	19.07	136	56.57
Jamaica	1993	Latin America	4.52	0.86	0.29	0.379	21.8	187	75.65
Jamaica	1996	Latin America	3.15	0.73	0.32	0.364	24.4	636	250.52
Jordan	1987	Middle East, North Africa	0	0	0	0.36	0.87	939	329.99
Jordan	1992	Middle East, North Africa	0.55	0.12	0.05	0.433	0.93	843	225.89
Jordan	1997	Middle East, North Africa	0.36	0.1	0.06	0.364	0.94	1655	371.26
Kazakhstan	1988	Europe, Central Asia	0.05	0.02	0.01	0.257	0	0	0
Kazakhstan	1993	Europe, Central Asia	1.06	0.04	0.01	0.326	0	0	0
Kazakhstan	1996	Europe, Central Asia	1.49	0.27	0.1	0.354	0	10	0.64
Kenya	1992	Sub-Saharan Africa	33.54	12.82	6.62	0.574	0	0	0
Kenya	1994	Sub-Saharan Africa	26.54	9.03	4.5	0.445	0	0	0
Kyrgyz Republic	1988	Europe, Central Asia	0	0	0	0.26	0	0	0
Kyrgyz Republic	1993	Europe, Central Asia	22.99	10.87	6.82	0.537	0	2	0.44
Kyrgyz Republic	1997	Europe, Central Asia	1.57	0.28	0.1	0.405	0	3	0.64
Latvia	1988	Europe, Central Asia	0	0	0	0.225	0	0	0
Latvia	1993	Europe, Central Asia	0	0	0	0.269	0	0	0
Latvia	1995	Europe, Central Asia	0	0	0	0.284	0	0	0
Latvia	1998	Europe, Central Asia	0.19	0.01	0	0.323	0	3	1.22
Lesotho	1987	Sub-Saharan Africa	30.34	12.66	6.85	0.56	0	0	0
Lesotho	1993	Sub-Saharan Africa	43.14	20.26	11.84	0.579	0	0	0
Lithuania	1988	Europe, Central Asia	0	0	0	0.224	0	0	0
Lithuania	1993	Europe, Central Asia	16.47	3.37	0.95	0.336	0	0	0
Lithuania	1996	Europe, Central Asia	0	0	0	0.323	0	2	0.55
Madagascar	1980	Sub-Saharan Africa	49.18	19.74	10.21	0.468	0	0	0
Madagascar	1994	Sub-Saharan Africa	60.17	24.46	12.83	0.434	0	11	0.85
Mauritania	1988	Sub-Saharan Africa	40.64	19.07	12.75	0.425	0	9	4.74
Mauritania	1993	Sub-Saharan Africa	49.37	17.83	8.58	0.5	0	2	0.93
Mauritania	1995	Sub-Saharan Africa	30.98	9.99	4.59	0.389	0	5	2.16
Mexico	1984	Latin America	12.05	2.65	0.78	0.54	1.86	1127	15.24
Mexico	1989	Latin America	16.2	5.63	2.75	0.551	4.66	2213	27.09
Mexico	1992	Latin America	13.31	3.23	1.04	0.543	6.1	3070	35.54
Mexico	1995	Latin America	17.9	6.15	2.92	0.537	7.39	3673	40.30
Moldova	1988	Europe, Central Asia	0	0	0	0.241	0	0	0
Moldova	1992	Europe, Central Asia	7.31	1.32	0.32	0.344	0	0	0
Morocco	1985	Middle East, North Africa	2.04	0.7	0.5	0.392	4.38	967	44.67
Morocco	1990	Middle East, North Africa	0.14	0.02	0.01	0.392	4.02	1336	55.54
Mozambique	1996	Sub-Saharan Africa	37.85	12.02	5.42	0.396	0	0	0
Namibia	1993	Sub-Saharan Africa	34.93	13.97	6.93	0.743	0	8	5.26
Nepal	1985	South Asia	42.13	10.79	3.75	0.334	0	39	2.40

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Nepal	1995	South Asia	37.68	9.74	3.71	0.387	0	101	4.95
Nicaragua	1993	Latin America	47.94	20.4	11.19	0.503	4.38	25	5.98
Nigeria	1997	Sub-Saharan Africa	70.24	34.91	NA	0.505	0.09	1920	16.32
Pakistan	1988	South Asia	49.63	14.85	6.03	0.333	0.11	2013	19.63
Pakistan	1991	South Asia	47.76	14.57	6.04	0.332	0.16	1848	16.67
Pakistan	1993	South Asia	33.9	8.44	3.01	0.342	0.18	1562	13.41
Pakistan	1997	South Asia	30.96	6.16	1.86	0.312	0.22	1409	10.97
Panama	1989	Latin America	16.57	7.84	4.9	0.565	3.53	14	5.95
Panama	1991	Latin America	18.9	8.87	5.48	0.568	3.55	14	5.72
Panama	1995	Latin America	14.73	6.15	3.39	0.57	3.61	16	6.08
Panama	1997	Latin America	10.31	3.15	3.67	0.485	3.67	16	5.88
Paraguay	1990	Latin America	11.05	2.47	0.8	0.397	0	43	10.19
Paraguay	1995	Latin America	19.36	8.27	4.65	0.591	0	200	41.41
Peru	1985	Latin America	1.14	0.29	0.14	0.457	0.33	0	0
Peru	1994	Latin America	9.13	2.37	0.92	0.446	0.89	472	20.39
Peru	1997	Latin America	15.49	5.38	2.81	0.462	1.03	636	26.09
Philippines	1985	East Asia	22.78	5.32	1.66	0.41	1.26	111	2.04
Philippines	1988	East Asia	18.28	3.59	0.94	0.407	1.49	388	6.66
Philippines	1991	East Asia	15.7	2.79	0.66	0.438	1.69	329	5.27
Philippines	1994	East Asia	18.36	3.85	1.07	0.429	1.86	443	6.63
Philippines	1997	East Asia	14.4	2.85	0.75	0.461	2	1057	14.82
Poland	1987	Europe, Central Asia	0	0	0	0.255	1.89	0	0
Poland	1990	Europe, Central Asia	0.08	0.027	0.02	0.283	1.84	0	0
Poland	1992	Europe, Central Asia	0.08	0.031	0.02	0.271	1.81	0	0
Romania	1989	Europe, Central Asia	0	0	0	0.233	0.62	0	0
Romania	1992	Europe, Central Asia	0.8	0.34	0.31	0.254	0.77	0	0
Romania	1994	Europe, Central Asia	2.81	0.76	0.43	0.282	0.88	4	0.17
Russian Federation	1994	Europe, Central Asia	6.23	1.6	0.55	0.436	0.34	0	0
Russian Federation	1996	Europe, Central Asia	7.24	1.6	0.47	0.48	0.35	0	0
Russian Federation	1998	Europe, Central Asia	7.05	1.45	0.39	0.487	0.36	0	0
Senegal	1991	Sub-Saharan Africa	45.38	19.95	11.18	0.541	0	105	14.05
Senegal	1994	Sub-Saharan Africa	26.26	7.04	2.73	0.412	0	73	9.04
Sierra Leone	1989	Sub-Saharan Africa	56.81	40.45	33.8	0.628	0.18	0	0
South Africa	1993	Sub-Saharan Africa	11.47	1.83	0.38	0.593	0.14	0	0
Sri Lanka	1985	South Asia	9.39	1.69	0.5	0.324	0.06	292	18.43
Sri Lanka	1990	South Asia	3.82	0.67	0.23	0.301	0.12	401	23.57
Sri Lanka	1995	South Asia	6.56	1	0.26	0.343	0.3	790	43.53
Thailand	1988	East Asia	25.91	7.36	2.73	0.438	0.17	0	0
Thailand	1992	East Asia	6.02	0.48	0.05	0.462	0.21	0	0

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Thailand	1996	East Asia	2.2	0.14	0.01	0.434	0.24	0	0
Thailand	1998	East Asia	0	0	0	0.413	0.25	0	0
Trinidad, Tobago	1992	Latin America	12.36	3.48	NA	0.402	10.5	6	4.85
Tunisia	1985	Middle East, North Africa	1.67	0.34	0.13	0.434	3.12	271	37.33
Tunisia	1990	Middle East, North Africa	1.26	0.33	0.16	0.402	3.01	551	67.56
Turkey	1987	Europe, Central Asia	1.49	0.36	0.17	0.435	4.18	2021	38.45
Turkey	1994	Europe, Central Asia	2.35	0.55	0.24	0.415	4.13	2627	44.00
Turkmenistan	1988	Europe, Central Asia	0	0	0	0.264	0	0	0
Turkmenistan	1993	Europe, Central Asia	20.92	5.69	2.1	0.357	0	0	0
Uganda	1989	Sub-Saharan Africa	39.17	14.99	7.57	0.443	0	0	0
Uganda	1993	Sub-Saharan Africa	36.7	11.44	5	0.391	0	0	0
Ukraine	1989	Europe, Central Asia	0	0	0	0.233	0	0	0
Ukraine	1992	Europe, Central Asia	0.04	0.01	0.01	0.257	0	0	0
Ukraine	1996	Europe, Central Asia	0	0	0	0.325	0	0	0
Uruguay	1989	Latin America	1.1	0.47	0.4	0.423	0	0	0
Uzbekistan	1988	Europe, Central Asia	0	0	0	0.249	0	0	0
Uzbekistan	1993	Europe, Central Asia	3.29	0.46	0.11	0.332	0	0	0
Venezuela	1981	Latin America	6.3	1.08	0.25	0.556	0.08	0	0
Venezuela	1987	Latin America	6.6	1.04	0.22	0.534	0.14	0	0
Venezuela	1989	Latin America	8.49	1.77	0.49	0.557	0.19	0	0
Venezuela	1993	Latin America	2.66	0.57	0.22	0.416	0.29	0	0
Venezuela	1996	Latin America	14.69	5.62	3.17	0.487	0.36	0	0
Yemen	1992	Middle East, North Africa	5.07	0.93	NA	0.394	0	1018	73.51
Yemen	1998	Middle East, North Africa	10.7	2.42	0.85	0.344	0	1202	72.49
Zambia	1991	Sub-Saharan Africa	58.59	31.04	20.18	0.483	0	0	0
Zambia	1993	Sub-Saharan Africa	69.16	38.49	25.7	0.462	0	0	0
Zambia	1996	Sub-Saharan Africa	72.63	37.75	23.88	0.497	0	0	0
Zimbabwe	1991	Sub-Saharan Africa	35.95	11.39	4.56	0.568	0	0	0

Notes: All poverty and inequality data from World Bank, *Global Poverty Monitoring Database*. Migration data from U.S. Population Census and OECD, *Trends in International Migration*. Remittance data from IMF, *Balance of Payments Statistics Yearbook*.

PART IV.

RECENT INITIATIVES TO CHANNEL REMITTANCES TOWARDS DEVELOPMENT

CHAPTER 14.

SOCIAL LEARNING AS A PRODUCTIVE PROJECT: THE *TRES POR UNO* (THREE FOR ONE) EXPERIENCE AT ZACATECAS, MEXICO

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Fleshy organic peaches grown by former migrants who picked up state-of-the-art agricultural technologies while toiling in Napa's organic vineyards, packed and shipped to exclusive grocery stores in wealthy urban areas in the United States; smoky mezcal bearing a label dedicating it to migrants who have crossed the border lining the shelves of liquor stores in the communities where those very migrants live and work; piñatas of superheroes sold in corner stores in the expanding Latino neighborhoods in the United States but also in large chains like Target or Wal-Mart; sewing machines humming in migration communities throughout the Mexican countryside as workers assemble school uniforms for local markets and slacks for export – projects such as these and others have filled the imagination of policy makers and migration communities alike who dream of linking migration to economic growth. In Mexico, both government and local communities have experimented with projects that draw on migrant capital and know-how to cultivate high-end agricultural products, to produce so-called nostalgic goods marketable because they remind people of the home they left, and to jump-start more traditional forms of product assembly. None of their attempts, however, has met with more than lukewarm success, even in the best of cases. The question of how to channel migrant remittances to productive entrepreneurial projects that are not only successful on their own terms but also generate local economic growth and employment has proved unexpectedly challenging. With migrant remittances for Mexico skyrocketing to a projected USD 16 billion for 2004, and likely to surpass the total foreign direct investment (FDI) to the country, the difficulties in designing strategies that orient migrant capital to productive investment border on maddening.

Unfortunately, the question of how to direct migrant remittances to productive projects is likely to remain vexing because it is fundamentally unanswerable. The reason is that it teeters on a conceptual contradiction. It balances on the collision of two very different, and in the opinion of the author, irreconcilable understandings of economic development and the processes through which it occurs. The first is a market-based model

that views development as the resolution of market imperfections and the second is a view of development as a process of social change. This chapter begins by outlining these two models in greater detail and then turns to the experiences of Guanajuato and Zacatecas to show how they played out in policy.[1] The trajectory of both states in their experiments with policies to build a relationship between migration and development suggests that a different question may be more useful in this endeavor. Rather than worrying about channelling remittances, the question that policy makers, scholars, and communities interested in marshalling migration and the resources it generates for development should ask is the following: How a development dynamic can be created that involves the multiple social and economic spaces of communities and regions that migration has stretched across borders and contexts, or put differently, how can a dynamic of economic development be generated that is transnational? In service of this larger goal, the question must also be asked: how to foster institutions to support the on-going process of social learning that transnational development requires and to translate the conceptual leaps necessary for this project into concrete policy actions.

Modelling migration and development

The question of how to direct migrant remittances toward productive projects makes an implicit distinction between those projects that are defined as productive and those that are defined as social and thus non-productive. With this distinction, and with its exclusive emphasis on productive projects, the endeavor to direct migrant remittances to productive investment reveals the first model of economic development on which it rests. This first model is a stripped-down, market-based view of development, and posits that economic growth is generated by bringing together the necessary factors of production – capital and labour. In a neo-classical view that careens toward neo-liberal, the challenge for developing countries and areas is to create a supply of capital that can motivate abundant labour and take advantage of the relatively higher returns to capital that cheap labour promises. Following this logic, remittances are seen as a source of capital – albeit a significant and rapidly growing one – that merely needs to be re-directed to projects where it can be applied to labour for production. So-called social projects, which in this model can include everything from the remodelling of churches to the provision of basic infrastructure and services, provide public goods which, while laying the necessary groundwork, will never drive economic growth, and thus represent something of a dead-end for capital.

Even though the simple elegance of this model is attractive, there is a catch: it depends on the assumption that the knowledge of how to turn the combination of labour and capital into production is universally available. In this view, the laws of efficiency dictate a single best way to organise production. If firms respond to price signals from the market, they cannot help but organise production in the most efficient, cost-effective way. As a result, with a little technical assistance, anyone, anywhere, can organise production to make it profitable and sustainable if they pay attention to market signals. The role of government in this model is to remove any static that may be blurring the clarity of market signals, either in their transmission or in their reception.

1. The two case studies presented in this paper are based on several months of fieldwork in Zacatecas (December 2002, March-April 2003) and Guanajuato (December 2002, July 2003). In keeping with human subjects protocol, the confidentiality of informants is protected. People interviewed by the author are identified by name only when they were public officials, performing a public function and when their comments were provided in that public capacity.

In terms of remittances, this models suggests that signals the market is sending about profitable investment opportunities for remittances may not be getting through to migrants either because of information asymmetries (migrants in the United States are not finding out about the investment opportunities in their communities or regions of origin) or because migrants are deaf to those signals due to the ways they fall short of being rational economic actors (migrants view their communities of origin through cultural lenses, perceiving their socio-cultural value but not their economic potential, or alternatively, they are not entrepreneurial types).[2] Therefore, in this view, the state can and should help migrants understand market signals through a public relations campaign that magnifies the volume of those signals and that trains migrants to hear them.

While this model holds powerful sway over the endeavor to channel remittances toward productive uses, the effort depends just as heavily on a competing model of economic development as a process of social change, and more specifically, as a process of social learning and innovation**.** The exclusive focus on migrant remittances – the monies that migrants send home to family and friends – as opposed to a general consideration of how to direct capital to income and employment-generating activities makes this clear. It represents an explicit acknowledgement that remittances cannot be reduced to a source of undifferentiated capital, but rather that they are infused with social meaning. They are embedded in social processes that determine their value and their use. The money a migrant sends home to support the spouse and children is different in its symbolic and material value from the money donated to pave roads in the hometown, and both transfers will have very different impacts on local conditions. The money earmarked for one use is not easily shifted to another: re-allocating resources from family support to the construction of public goods requires deliberate action that itself highly charged with social meaning.

If remittances are not fungible, then the social processes that determine their use and their impact become all-important. Moreover, if social processes ascribe a range of functions and meanings to remittances, in effect shaping what those resources are, then the ways those transfers can be marshalled for economic activities, especially the employment generating activities, have to be equally varied. Stated differently, there can be no single most efficient formula for bringing capital and labour together because production that draws on remittances is not using capital in a straightforward way. Rather, it is using a local resource that local social processes make specific and unique. As a result, the knowledge of how to use remittances for production cannot be universally available. Instead, the knowledge is local by definition because remittances glean their value from social processes that are local – local actions, local values, local relationships. The social and monetary value of remittances in a depressed rural village in Zacatecas where they represent the only income for the elderly parents that receive them will be very different from their value in the city of Leon, Guanajuato, where they may be one source of income among many sources available. How those remittances can and will be enlisted for economic production will also differ: in the Zacatecan village, for example, they may be used to subsidise unprofitable "nostalgic" agricultural production, where elderly folk cultivate crops for the rhythm it gives their lives, whereas in Leon, remittances may be used as a form of working capital for a small firm. Additionally,

2. See Moctezuma *et al.* (2002) for more on the description of certain groups of migrants as inherently non-entrepreneurial.

because as social processes change, so do the value and function of the remittances that they inflect, that knowledge is always partial and in need of continual revision.

In this model therefore the economic development of migration communities is the process of social learning[3] through which social actors learn to use remittances *better*. Not in a single best way, according to a single best practice, but better. In fact, "best" in this model is an impossibly elusive goal because local constraints, local meanings and local opportunities are constantly changing. The moment a provisional "best" is achieved, local conditions have already shifted and demoted the organisation of production to "less-than-best," prompting the never-ending search for a "better" form of organisation. The distinction between so-called social and productive projects becomes irrelevant. Instead, what counts is whether projects of either stripe can generate a process of social innovation and sustain the on-going learning that the quest for "better" requires.

The view of development that policy makers favor in this uneasy marriage of models matters a great deal for how they structure their attempts to forge a relationship between migration and development. The experiences of Guanajuato and Zacatecas illustrate this well. Both states have some of the longest standing state policies toward migrants in Mexico, and both have made a deliberate effort to link emigration with the economic development of migrants' communities of origin. However, Guanajuato and Zacatecas have applied radically different conceptual approaches to this task, each leaning far more heavily on one model than the other. With its *Mi Comunidad* initiative, Guanajuato designed policy which equated remittances with capital, which it then channelled to projects where it could be matched with labour and put to productive use. Zacatecas, on the other hand, used migrant remittances as a medium to cultivate processes of social learning and innovation, paying less attention to the direct impact that migrant transfers have on prospects for economic development. Through what is now the "Tres-por-uno" programme, the Zacatecan state and migration communities together accomplished two key things: first, they wove the disparate geographical and socio-economic spaces where Zacatecanos live, on both sides of the US-Mexico border, into a cohesive transnational sphere; and second, they created transnational social institutions that support the conversations so necessary for learning to occur.

"*Mi Comunidad*" and the market

In 1996, Guanajuato launched its *Mi Comunidad* programme to much fanfare. After several years' worth of social and cultural outreach to Guanajuatenses living abroad, it was the state's first programme to link migration to local economic development. The scheme seemed like a brilliantly straightforward way to redirect migrant remittances toward productive investment: through a series of incentives and an aggressive public relations campaign, the state would raise migrant remittances which it would channel to small[4] garment maquilas in migrants' communities of origin. The state would provide comprehensive technical assistance, and in some cases the requisite machinery, to help the maquilas get off the ground (Martinez, 2002; Moctezuma and Rodriguez, 2002). At the height of the garment assembly boom in Guanajuato, *Mi Comunidad* seemed like a fail-safe plan that would turn isolated migration sending communities into vibrant defacto export processing zones. The then Governor Fox personally visited the newly inaugurated

3. See Sabel and Reddy (2002) for more a elaborate discussion of development as social learning.

4. The largest of the maquilas established had no more than a couple dozen employees at its height (Martinez, 2002).

migrant-funded maquilas that were supposed, in short order, to become vital links in global garment commodity chains. The state had visions of turning rural Guanajuato into a new, slightly more spread out, version of Middle Italy, with its clusters of small garment firms producing internationally competitive high-end goods (Smith, M.P., 2003).

Within five short years, it became abundantly clear that Mi Comunidad was a dramatic failure. Despite intensive hands-on technical assistance, discounted loans, generous state subsidies for wages and machinery, only four maquilas out of the 13 established under the programme remained. Moreover, the surviving handful barely hobbled along: they were producing for low-end local markets or found themselves assembling at the tail-end of global commodity chains, having been subcontracted to sew simple low-quality garments for relatively low returns. The remaining maquilas also faced chronic labour shortages as their workers, once trained, left for better prospects in garment firms in Guanajuato's larger cities and in garment centers in the United States like Los Angeles, or as they simply dropped out of the workforce for extended periods of time when they received remittances from relatives abroad. Migrant investors who had returned to their communities of origin in a bid to rescue their failing maquilas found themselves planning to migrate once again to raise the working capital they needed to keep their firms afloat. Not only was Mi Comunidad a policy disaster in terms of promoting local economic development, the programme also opened up bitter fissures amongst Guanajuatan emigrant groups, many of whom had undertaken a concerted collective action effort to pool the USD 60 000 minimum required to participate in the programme.[5] (Martinez, 2002; Moctezuma and Rodriguez, 2002; Interviews with maquila owners and state officials, July 2003).

In retrospect, the failure of *Mi Comunidad* was predictable. From the start, the programme faced a host of structural obstacles. The maquilas that the programme established were hamstrung by their geographical isolation: they were set up in rural communities where the physical and communications infrastructure that linked them to production centers was spotty. The new firms' physical isolation quickly became a metaphor for their isolation from production networks and commodity chains, a problem the firms could not remedy on their own and with which they received little state help. Removed from the social and production mechanisms needed to ratchet up standards, a large quorum of the new maquilas produced goods of uneven and mediocre quality, at prices that were uncompetitive (Martinez, 2002; Moctezuma and Rodriguez, 2002; Smith, M.P., 2003; Interviews with maquila owners and state officials, July 2003) While these constraints represented significant stumbling blocks, the state's inability to foresee and then address them can be traced back to a much deeper problem with the programme: *Mi Comunidad* was based on a conceptual model of how migrant remittances would generate economic growth that was stylised and abstracted from context.

The view of remittances on which the programme was built stripped them of their social value. It divorced them from the social processes that imbued them with local meaning and ascribed to them a local function. To be fair, during the programme's initial fundraising phase, the state drew strategically on migrants' identity as emigrants with ties to their communities of origin, exhorting to show solidarity with those they left behind

5. Interestingly enough, despite its dramatic failure, the *Mi Comunidad* programme is still cited by multilateral development agencies as a policy example to be followed. See, for example, the IADB's programme document for its two and a half million dollar "Capitalization of Remittances for Local Economic Development" initiative for Mexico – otherwise known as *"Invierte en Mexico"* (2004).

(Moctezuma and Rodriguez, 2002). However, once the funds were secured, the programme relied heavily on a market-based logic of development as the bringing together of the necessary factors of production. Remittances were reduced to capital – capital in search of labour.

This market-based understanding of how migration could be leveraged to promote development produced two fundamental weaknesses in the programme. First, because the model of economic growth on which the state relied was built on the assumption that there was one most efficient way to organise production and the knowledge of how to do it was universally available, the state did not attend to the social process of learning that is a key part of production. Although the state took a few initial steps to connect the new maquilas to garment subcontracting chains, the effort fell far short of what was necessary to integrate the infant firms, many of whose main investors were on the other side of the border, into the thick rope of social relationships that are the underlying infrastructure of production networks. As a result, the isolated maquilas could not benefit from the on-going learning and upgrading in quality and in the organisation of production that negotiations between firms in commodity chains can often produce. Nor were the maquilas able to access the pool of tacit knowledge and innovation in quality control and garment design that would have allowed them to move up commodity chains to tasks more sophisticated than low-end assembly. The technical assistance in no way remedied the situation: the state's technical assistance to the firms focused on training workers in low-end assembly, but it offered no training or access to institutions that could help the firms *learn* how to produce *better*.

The programme's conceptual bias about economic development produced a second important weakness in its design and implementation: the state displayed a consistent inattentiveness to the particular characteristics of the migration communities where the maquilas were established. In the model of economic growth Guanajuato relied on in this endeavor, the context of production was largely irrelevant to the efficiency of production itself. In what appears to be a direct reflection of this conceptual limitation, the state did not address how production in rural communities where every aspect of life – from cultural values to economic strategies to styles of political mobilisation – was organised around migration would be different from production in the low-migration, urban areas where maquilas that driven the state's heady economic growth in the aftermath of NAFTA had up until then been located. The programme did not take into account the myriad consequences that the maquila's location had on production, at least two of which are worth mentioning here because they call into question the fundamental premise on the model on which the policy was based: that production – and development – are basically the matching of capital and labour.

First, prolonged migration in the migration communities where the maquilas were set up had made local labour markets thoroughly transnational.[6] Capital was not being infused into communities of abundant waiting labour willing to work at any wage. Instead, the remittances were being channelled to communities where workers weighed employment options on both sides of the border in terms of pay and in terms of the

6. Guanajuato has one of the oldest traditions of migration to the United States in all of Mexico, with migration beginning before the turn of the 20th century, and only intensifying over time. It now has the second highest level of migration among its active workforce (11.35%) amongst all Mexican states. Additionally, migration has profoundly impacted virtually every corner of the state: about two-thirds of Guanajuantan municipality were classified by the National Population Commission of Mexico as having migration rates that were high or very high, and only 6% of the state's administrative areas were classified as having low migration rates (CONAPO, 2001 in Guanajuato, 2002).

opportunities for career growth they offered, as if those opportunities were all local, almost equally available, definitely equally conceivable. In that context, the local maquilas jobs qualified only a second-rate stop-gap employment, worth the effort for the wage only if one were hard-pressed for income or if one needed to pass the time (interviews, Mi Comunidad manager and maquila managers, Guanajuato July 2003).

Second, migrant remittances never became capital. Even after they were pumped into the maquilas, they never shed their social significance, and migrant investors found themselves caught between the Scylla of efficiency imperatives and the Charybdis of meeting their social obligations to the local community, to relatives and friends. This dilemma eventually transformed the way the Mi Comunidad programme was implemented on the ground: as the programme administrator observed when reflecting back on the experience: "over time, it became a social programme. A way to make people feel more capable" (interview, July 2003). The social dynamics of economic development overwhelmed the economistic model on which Mi Comunidad was based, and the programme's neglect of the social processes of development – especially the transnational social processes in migration communities – was its undoing.

"*Tres-por-uno*" and negotiating learning

Unlike the Mi Comunidad initiative in Guanajuato, Zacatecas privileged social processes throughout the development of its "Tres-por-uno" programme. The matching funds programme in which the federal, state, and municipal government match every dollar that migrants raise for community projects with a dollar of their own (hence the name "Tres-por-uno" or "Three-for-one") was a long time in coming, and took over a decade to evolve into its current form. Now, the programme is at the core of Zacatecas' myriad formal and informal policies toward its migrants. It has proved extremely popular with emigrants and migration communities in Zacatecas, as well as in the states like Jalisco, Michoacan, and even Guanajuato, all of which began to emulate the initiative in the late 1990s. In 2001, the Fox administration kept its campaign promise to Mexicans living abroad and made the well-liked "Tres-por-uno" – or "Iniciativa Cuidadana" as it is officially titled – a national initiative, extending it to all the states in the federation.

While Initiative Cuidadana now functions in almost all of Mexico 32 states, the dense web of social relationships and the vital social institutions that the programme generated in Zacatecas and in Zacatecan communities in the United States still remains unparalleled. While this is undoubtedly due in part to the novelty of the programme in most states, it is also due to the fact that the way the programme has generally been applied is quite distinct from the way it has been applied in Zacatecas.[7] Throughout the programme's lifespan, the state of Zacatecas has been less concerned with the resources that migrants could contribute to specific community projects through the programme than in the transnational social relationships – and political loyalty – that the projects could foster. Over time, the way the programme has been applied has tethered together multiple distinct places on both sides of the border, weaving them into a cohesive socio-economic space. However, this outcome was neither intentional nor foreseen. The "Tres-por-uno" was an emergent policy tool. It grew out of a process of social learning that involved the state, migration groups and migration communities and that, as a result,

7. This conclusion is based on field visits in 2002 and 2003 to several states with a track record of at least three years with a matching funds program, including Guanajuato, Jalisco, and Michoacan. The visits discussions with migrant communities and local and national (SEDESOL) officials implementing the matching-funds program.

became robustly transnational. Over time, the programme was amended to reflect that learning and the knowledge it produced. To understand why, a brief review of the programme's evolution in the state in necessary.

The initiative for Zacatecas' matching funds programme emerged out of a discussion between migrants and the state. Encouraged by colleagues in his campaign committee, newly elected Governor Borrego traveled to Los Angeles in 1986 to meet with leaders of Zacatecan community groups. In that initial encounter as well as those that followed throughout Borrego's administration, the state and migrants discussed ways to collaborate to meet a number of goals the migrants identified. These including strengthening community institutions amongst Zacatecanos abroad, defending their rights as workers, securing better treatment when crossing the border, and organising projects to improve the conditions in their communities of origin, including projects that could generate economic activity. After one of the first of those meetings, the state of Zacatecas began an *ad hoc* programme to match migrant funds one-to-one for community development projects. From the start, the objective to the initiative was two-fold: to draw on migrant resources for the projects the migrants wanted to see completed in their communities of origin, and to generate a relationship of trust between the state government and the migrants.[8] As the Genero Borrego, governor at the time, recalled that his administration initiated the informal programme to "create a feeling of trust (*darles confianza*); the risk that [the migrants] were running by putting a dollar into a public project, well, I was running that same risk. I wanted them to know that we were in it together" (interview, Borrego, August 2003). Within the first year of the informal arrangement, over a dozen projects were completed in migration communities.

In 1992, the matching-funds programme was formalised and expanded under Borrego's successor, Arturo Romo. Under the new agreement, each dollar that migrants contributed to community projects would be tripled, matched with one dollar from the state government and one dollar from the federal government. In design, the new established "Dos-por-uno" programme that fell into the grooves that the Salinas administration dug so fervently for its National Solidarity Programme, the administration's main strategy for poverty-reduction and political mobilisation at the time. Just like Solidaridad, the programme required that communities organise local committees to contribute funds or labour to every project's execution, but in a slightly different twist on the national initiative, the "Dos-por-uno" also required that those committees be affiliated with a hometown association of Zacatecanos abroad originally from the community. For a brief period from 1993 to 1995, the federal government tried to co-opt Zacatecas' "Dos-por-uno" programme, christening it "Solidaridad Internacional," but due to implementation difficulties and the demise of the Solidaridad programme nationally,[9] the initiative quickly evaporated (Goldring, 2002). In Zacatecas, however, the programme continued to flourish, with the amount the state invested in the

8. Many observers of Zacatecas' matching funds programme have argued that it was primarily a tool to generate political patronage and a clientelistic relationship between the PRI and migrants – see Goldring (2002) and Smith, R. (2003) for a more detailed discussion of this view. The argument is valid to a certain extent, but the author believes that the story was more complex than this representation suggests, and that the state was interested in forging relationships with migrant groups for a series of economic and social reasons as well. However, regardless of the political designs of the Borrego administration, and later Romo and Monreal's administrations, in engaging in on-going conversations with migrants, the transnational social process of learning the conversations generated is what is of interest here.

9. See Cornelius *et al*. (1994) for more information on Mexico's National Solidarity Program.

programme almost quadrupling in three years from a little under 2 million pesos in 1993 to approximately 7 million pesos in 1996 (Secretaria de Planeacion y Finanzas, Zacatecas, no date).

The reason that the matching-funds programme was a success in Zacatecas was that the state and Zacatecan migration communities on both sides of the border built the social infrastructure needed to support it. The state embarked on a concerted effort to organise Zacatecan migrants in cities and towns throughout the United States into hometown associations. The measures the state adopted it in this attempt were bold: for example, the Department of Planning sent its "Dos-por-uno" programme director on numerous trips to the United States to contact individual migrants from the same town or village who had settled in a given city. With formal proposals and budgets for community projects in hand, the bureaucrat brought those migrants together into a club (also called "hometown association") to raise money for those projects and to plan for future ones. Along those same lines, the state also organised and funded at least seventeen visits for municipal presidents to promote the "Dos-por-uno" in American cities where their emigrants worked and lived. The governor certified and met with new federations of Zacatecan hometown associations and maintained strong channels of communications with those that were already well established. (Secretaria de Planeacion y Finanzas, Zacatecas, no date; Moctezuma and Rodríguez, 2002; Interviews, Zacatecas 2003)

The Zacatecan migrant organisations met the state's overtures with initiatives of their own. For example, the Federacion de Clubes Zacatecanos del Sur de California, the largest and oldest federation of Zacatecan hometown associations, used the "Dos-por-uno" programme as a means to integrate new clubs into the federation. Doing so enabled it to provide the young organisations with the institutional support they needed to become more solid and lasting than many of the temporary "fly-by-night" clubs that have formed and just as quickly dissolved under the now national "Tres-por-uno." This strategy also endowed the Federation and the clubs it housed with the clout to resist the corporatist designs implicit in the government's outreach efforts. The Federacion de Clubes Zacatecanos del Sur de California, as well as other federations of Zacatecan clubs in other parts of the United States, was able to maintain enough autonomy so that its negotiations with the state and municipal governments over project choice and implementation remained meaningful (Moctezuma and Rodriguez, 2002; Moctezuma, Interviews 2003; Goldring 2002, Interviews, Guadalupe Gomez, former president of Federacion de Clubes Zacatecanos del Sur de California, 2002-2003). The engagement, discussion, and even frequent conflict between the state and migrant organisations in the context of the "Dos-por-uno" generated a process of social learning: the conversations honed the state responsiveness to migrant needs, and they sharpened the ability of migrant groups to articulate their concerns and advocate for specific policy measures to address them.

Both government and migrant institutions have continued to evolve over the past several years, and in fact, have became increasingly interwoven, so much so that they are sometimes indistinguishable. The controversy that surrounded Ricardo Monreal's ultimately successful campaign for governor in 1998 served as a catalyst for the proliferation of migrant-related social and state institutions. Monreal defected from the PRI and after running on a platform for political reform, was elected under the PRD banner, thanks in large measure to the support of migrant groups whom he had courted vigorously during his campaign. The candidacy brought tensions in migrant organisations to the surface, many of them simmering disputes over how the "Dos-por-uno" was being managed. Because the rifts revealed by this conflict were viewed as irreconcilable, new migrant organisations were spun off of those already established. A bitter fight within

Federacion de Clubes Zacatecanos del Sur de California, for example, led to the creation of the Frente Civico Zacatecano, a group that would devote itself exclusively to migrant political causes in Mexico and in the US.

In recognition of the role that migrants played in his election, Monreal's administration opened a number of new channels for migrants to participate in state government. The state created a number of formal posts like a cabinet-level position as the state liaison with migrants in Los Angeles. It also opened various informal means for migrants to get involved in state governance, like institutionalising their participation in planning meetings for the matching funds programme, which Monreal upped to "Tres-por-uno," and setting up a regularly updated website on the "Tres-por-uno" activities, complete with quarterly reports, budgets and documentary photos, through which migrants could monitor the progress of their projects.

In addition to the institutions that forged stronger ties between the state and migrant groups, both Zacatecan federations of hometown associations and the state have established robust (if sometimes contentious) working relationships with the Universidad Autonoma de Zacatecas. The migration and development research group at the state university has not only advised migrant groups and the state, but it has also collaborated with them on a variety of political and social projects on both sides of the border. (Goldring, 2002, Moctezuma, Interviews 2003; Garcia Zamora, 2002 and Interviews 2002 and 2003).

This dense web of social institutions spun by Zacatecas' matching funds programme over almost two decades has created a cohesive transnational sphere. Like the warp of a rug, the ties and exchanges between these institutions have woven together places and contexts that are geographically disparate as well as socially, economically and political quite distinct. These ties have made the multiple places in this transnational tapestry intensely local. They have made Los Angeles or North Dallas as locally pertinent to the Zacatecan political scene, for example, as the capitol city of Zacatecas itself; and they have made the social and cultural priorities of migrants in central California as locally relevant to the physical appearance of towns in the municipality of Jerez as the values of local residents who live surrounded by those physical spaces.

Furthermore, in the weaving of this transnational sphere, Zacatecas' matching funds programme – or rather the way that migrants and the state have deployed the programme – has made the knowledge generated and available at multiple different sites very local. It has made knowledge produced and accessible in US contexts just as immediate to Zacatecanos who never left Zacatecas as to the Zacatecanos worked and lived north of the border. For example, the "Tres-por-uno" made the knowledge about the legal and social processes involved in formalising a political mobilisation into a US non-profit or a political action committee just as local and available in the Zacatecan municipality of Jalpa, where a handful of Zacatecan migrant leaders grew up, as in Los Angeles where the largest and most influencial Zacatecan non-profits and PACs have set up shop. In addition to many tangible and encodable forms of knowledge, the matching funds programme has made a number of pools of tacit knowledge geographically anchored in multiple sites in Zacatecas and in the US equally local. It has brought knowledge that is difficult, if not impossible, to articulate, but that is "in the air" at a number of dispersed physical places into a single cohesive socio-economic field. The tacit knowledge that the "Tres-por-uno" programme brought into this Zacatecan transnational field has touched on everything from job and production skills to ways to address the specific heartbreaks and dislocations in drug rehabilitation programmes for a sub-section of returning migrants.

Inherently, migration has a tendency to make different forms of knowledge available to the people who move and to the people who stay behind, and fusing them into hybrid identities, cultures, and knowledge. However, two things make the way this dynamic has played out in Zacatecas distinct. First, the social institutions and spaces created through Zacatecan matching funds programme have supported conversations that are on-going and that have brought the knowledge available at multiple different sites into contact, and even contest, on a recurrent and continuing basis. Through their discussions and conflicts, through regular meetings and informal interaction, hometown associations, Zacatecan federations, state and municipal government, the university, and local community groups have created a mosaic of multiple knowledges, but one that is always in progress, continually being rearranged, reconstituted, and extended. Furthermore, the conversations the Zacatecan matching funds programme has supported have been broad enough to hold forms of knowledge that often appeared contradictory, logically unintelligible, or simply unrelated (Piore and Lester, 2004). Because the state and migrant organisation have, from the very start, emphasised the social (and political) relationships that the projects under the matching funds programme could foster over the projects themselves, the conversations have focused on process rather than outcome. The most heated and extensive debates between migrants and the state, for example, have addressed *how* projects are selected for funding rather than the list of projects that are ultimately carried out. The conversations' attention to process has kept them open-ended rather than narrowing them with a restrictive focus on particular task, and it has compelled them to hold the ambiguities and contradictions inherent in social exchanges, even in those produced by the effort to reach a common understanding (Piore and Lester, 2004).

Thanks to their open-ended, on-going character, the conversations amongst and within the social institutions in this policy-induced transnational field have generated a process of social learning. The juxtaposition of multiple knowledges in these conversations has allowed the state, migration communities, migrant political groups, and even the university to make a number of significant conceptual leaps that otherwise might have been inconceivable. For example, at a "Tres-por-uno" plenary session of municipal presidents in April 2003, a representative from the Federacion de Clubes Zacatecanos del Sur de California stressed the importance of the matching funds programme to migrant labour mobilisation in the US. His argument was that once Zacatecanos organised into a club to carry out a specific project in their community of origin, they could use that same organisation as a vehicle for collective action in their workplaces. They use the hometown associations to press their US employers for better wages, better conditions, and better training and advancement opportunities. (Given the way migration network and hiring practices intersect, it is not uncommon for migrants from the same community of origin to work in the same industry and even in the same firm).[10] This migrant leader was in effect linking the paving of roads or the beautification of town plazas to migrants' working conditions in the United States. Another example of this type of conceptual leap is the economic development strategy recently proposed by the newly elected major of Jerez, a municipality with a strong migration tradition and a per capita remittance rate that ranks in the top fifth of the state (Padilla, 2002). He suggested that economic development in Zacatecas required investment in the United States: he argued that

10. See Cornelius (1998) for further discussion of this dynamic.

Zacatecan economic growth depended on investment in a network of distributors north of the border for goods produced in the state.[11]

In the second aspect that makes the Zacatecan experience unique, the state and migrant groups have drawn on those newly understood connections to shape policy. Throughout the matching funds programme, the newly articulated insights have been incorporated into each successive iteration of the programme design. The amendments to the programme have been nuts and bolts, affecting everything from project selection criteria, budgeting procedures and auditing mechanisms, but they have also been procedural and institutional, with both the state and migrant federations not only devoting increasing organisational and human resources to managing projects and to engaging in transnational negotiations but also to actively exploring different political and economic visions for Zacatecan communities on both sides of the border.

Out of a policy to channel migrant remittances, Zacatecas designed a medium for on-going processes of social learning and institutional innovation. However, while the state, in collaboration with migrant groups, has successfully brought to life the social processes on which development depends, it has been slow to apply them to the challenge of generating economic growth. One of the state of Zacatecas' early goals in launching the matching-funds programme was to cultivate synergy between migration and economic development. In this respect, the programme has fallen short of its mandate. The public works that the programme has produced – the churches renovated, the rodeo stadiums built, the plazas landscapes, the sewage and potable water pipes laid, the roads paved, the street lamps installed, the schools renovated – have improved the quality of life in village residents and have had a mild mitigating effect on poverty in migration communities. However, the programme has set only sporadic economic activity in motion, either through direct employment for construction or indirectly through the income generated through the use of the community facilities built under the programme. In many cases, the programme has transformed villages into "mausoleums of nostalgia," as one observer called them (Garcia Zamora, Interviews 2002 and 2003) – largely abandoned, almost ghost towns because of out-migration, but nevertheless, thanks to the programme, beautiful and equipped with all the basic public infrastructure and services.

Only very recently have the state and migrant groups begun to explore economic development options under the auspices of the "Tres-por-uno." How suited the matching funds programme may be to income and employment-generating projects is a matter of debate. However, as illustrated here, that debate may be less useful in fostering a relationship between migration and economic growth than a concerted exploration of how to apply the transnational processes of social innovation to the economic development of migration communities.

Conclusion

The experiences of Guanajuato and Zacatecas illustrate two very different policy approaches to channelling migrant remittances toward economic development, based on two very different paradigms of how economic development occurs. The moral of their stories is not to find a happy balance between Guanajuato's market-based strategy and

11. Andres Bermudez, former migrant and major of Jerez in 2004, made this proposal at a conference sponsored by the Mexican National Institute for Migration, entitled "Migracion, Remesas, y Desarrollo in Mexico", Mexico City, 17 November, 2004.

Zacatecas' emphasis on social processes. Rather, it is to cull the strengths of each strategy and synthesise them into a third approach. It is to combine Guanajuato's vision of the economic dynamism that migration, with all the resources it makes available, can generate in sending communities with a Zacatecan attention to the social processes that lead to economic and social change.

What emerges is a view of economic development that is better tailored to the needs and resources of migration communities. This view has three main implications for the way economic development is considered in migration communities. First, social actors, and the state chief among them, have an important role to play in the elaboration of social processes and institutions that transform the multiple spaces that migration involves into a cohesive transnational socio-economic sphere where multiple sites and types of knowledge become local. Second, those institutions serve the project of economic and social development best when they support inclusive and on-going conversations that bring those multiple knowledges into contact, and where the friction between them spark processes of social learning and institutional innovation. And finally, in order for the creativity that they release to produce economic change, these transnational conversations, with the conceptual leaps to which their transnational character makes them prone, must explicitly wrestle with the problem of how to generate economic growth. Remittances are not just capital, but neither are they only social processes. Supporting transnational social processes of innovation through deliberate policy may very well be migration sending states' best bet for transforming the social and material resources they represent into economic prosperity.

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CHAPTER 15.

MIGRATION, REMITTANCES AND ECONOMIC INITIATIVES IN SUB-SAHARAN AFRICA

by

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Migrants from sub-Saharan Africa began to contribute to the development of their home countries as a result of two developments: the cycle of droughts in the 1970s that seriously affected these countries' domestic economies, which are primarily based on agriculture, and the structural adjustment measures initiated in 1981, prescribed by the International Monetary Fund (IMF) and the World Bank, requiring countries to disengage from the agricultural sector and thereby depriving a significant portion of farmers of subsidies and technical support. Under these circumstances, emigration provided an external solution to an internal crisis, and was initially aimed at meeting the basic needs of families in home countries and at contributing to building basic infrastructure (schools, mosques, etc.).

Today, the connection between migration and development is not always evident, because of the gradual dwindling of pools of jobs traditionally available to migrants in OECD countries and the consumer-oriented domestic economies that capture the bulk of migrants' savings. This situation has led many local elected officials in medium-sized towns and rural communities to rethink how these financial contributions can be used within an endogenous development strategy. The use of remittances to support development has been made possible by public and non-governmental bodies that have worked to go beyond the family and village as migrants' sole framework for investment.

This chapter will take stock of some significant development initiatives undertaken by migrants and examine the formal and informal structures used for remittances and the optimum conditions for international co-operation on projects in an urban setting.

Local development initiatives and the financial involvement of migrants

In sub-Saharan Africa, all local development is based on emigration. The correlation between migration and development is very close, as is shown by the structure of demography and migration. For example, in the urban commune of Koniakary, which is located in the sub-Saharan region of Kayes (Mali), nearly one out of two inhabitants is a migrant. Of an initial population of 9 812, 4 011 are migrants. In some ethnic groups,

migrants considerably outnumber sedentary inhabitants. However, this predominance of migration, which is not an isolated trend, is not always reflected by a significant participation of migrants in local development.

Looking at the record of the commune's projects between 1999 and 2003, the participation of migrants in terms of the volume of projects remains low, even though their financial contribution is on the whole significant. Of some twenty economic projects undertaken by the commune, migrants' funds only paid for the construction of the communal health centre (CFAF 120 million), which is absorbing the bulk of the available investments. On the other hand, for the creation of a savings and credit bank (CFAF 200 000), a reforestation operation (CFAF 780 000) and general productive investments, local actors, *i.e.* the commune, have borne the cost of all operations, sometimes with support from non-governmental organisations (NGO). The orientation towards a major projects option is dictated by a policy based on a communal development plan that organises investments on the basis of local needs, unlike previous practices in which migrants' savings were used as the migrants saw fit. This communal designed plan has been developed to give coherence to economic initiatives based on a comprehensive view of the locality's future in terms of local priorities, but it is also considered as a means of combating emigration.

Today, local authorities generally feel that emigration is no longer economically viable and that an alternative must be developed on the basis of endogenous capacities by creating skilled jobs that can enable the population to remain in the area, especially young people. To achieve this goal, it is necessary to develop adequate technical means for water control and electrification in order to explore new job niches. All these reforms require resources that are not easy to find, in particular because the new local authorities in charge of these plans do not have any funds of their own, since there is no rural tax.

The vast majority of remittances – some 82% for Mali (a representative percentage for remittances for sub-Saharan African countries) – are sent first to families in the broad sense of the term. Transfers for economic purposes only account for a residual share. The key question is whether, given the magnitude of the families' demand for support in the home country and the pressure on employment in host countries, a significant share of resources can be diverted to productive sectors. The fields of health care and village water supply remain the principal sectors for migrants' investment.

The issue of health care has become a major priority for the entire emigration area. In the area of M'Bagne, an administrative district located in the centre of southern Mauritania, despite the precariousness of the agricultural system and the high unemployment rate, health care is presented as the main sector that has benefited from migrants' investments, *i.e.* a sum of MU1 790 000 collected at the initiative of the association for the development of M'Bagne in France.

Village water supply is the second sector targeted by associations of migrants' investments, which have been growing in size and have shifted from small wells and drilling projects to the construction of more complex structures such as water towers and distribution networks, which are becoming increasingly common in the localities of the main emigration area. Studies conducted by the PS-Eau water solidarity programme in

this area show that out of some ten drinking water systems constructed, 80% of the financing was provided by migrants' funds.[1]

The potential of sub-Saharan migrants to make economic contributions is being tapped through decentralised co-operation that is enabling European and African towns to develop jointly projects aimed at providing infrastructure and facilities for community use. This concept is most fully developed in France, where there is a broad range of initiatives of this kind, most of which have been initiated through twinning arrangements between towns, regions, and even associations and organisations, which are trying to build solidarity networks through the active participation of migrants' associations. In this regard the case of Montreuil can be cited, which is popularly thought of as the second city of Mali because of the number of Malian migrants living there. The co-operation is focused on the Yelimane Circle, Kayes region, where, following an agreement, three triennial plans for the construction of development infrastructures are currently under way, under the aegis of Montreuil's international relations office (OMRI), with the support of the Ministry of Foreign Affairs, the European Union (EU) and, to a lesser degree, with professional organisations such as the water board of the Île de France region.

In most cases, migrants' associations are not only involved in the planning of projects, but also contribute a portion of the financing through contributions to *caisses de solidarité villageoise* (village solidarity banks). Through the Yelimane Circle development association in France and the Malian women's association of Montreuil, contributions have accounted for 25% of the overall co-operation budget, *i.e.* some FF1 202 000 out of FF5 407 500, as was pointed out in the important report of 2004, co-ordinated by the French committee for international solidarity (CFSI), on the issue of financial flows and the mobilisation of savings and local investment.

Financial contributions and the institutional system of management

Migrants began to show a strong interest in organised forms of contributing their savings through formal financial arrangements as a result of the awareness-raising programmes of organisations such as the third-world research and rural development implementation group (GRDR). These initiatives were launched in 1999 in hostels, which are the main form of housing for migrants, in order to make associations more aware of "the need to support the development of decentralised financial systems". New financial systems were developed during these meetings, such as the savings and credit co-operative (COOPEC) and the self-managed village savings and credit bank (CVECA), together with other financial products such as solidarity credit and credit funds, which had been unknown to migrants' associations until then. As of the mid-1990s, the GRDR was one of the first bodies to decentralise its financing tools in the field, primarily in Mali, Mauritania and Senegal, by establishing the Support Fund for Basic Initiatives. The originality of this approach is that the funds contributed are transferred to awarding committees (CAT) (*Comités d'Attribution*) placed under the control of the heads of local associations, thereby helping the home countries to become autonomous in relation to migrants.

1. Cf. PSEau/GRDR (1999), *Etude sur l'implication des associations de migrants de la région de Kayes dans l'approvisionnement en eau dans leurs villages d'origine,* January; UAGF/PSEau/GRDR (1998), *Etude eau et santé auprès des associations mauritaniennes du Guidimakha,* February; PSEau/RADBFS (1996), *Etude sur les interventions des migrants dans le domaine de l'hydraulique au Sénégal,* September.

In Senegal, a development programme will be focusing on two medium-sized towns, Bakel and Matam, working through 32 grass-roots organisations consisting of village development associations, women's groups and economic interest groupings that have engaged in initiatives in the field of market gardening, processing of agricultural products, dyeing, grain banks and shops providing basic necessities. It is estimated that one-third of the joint financing is being provided by migrants. Encouraging results can be seen, in particular the improvement of management capabilities, since there has been a significant increase in working capital (grain banks and credit funds). Management tools have been introduced through accounting in the businesses being created and compliance with agreements and contracts. In short, initial steps have been taken to rationalise the management of economic projects so as to ensure the optimum use of migrants' funds for sustainable investments.

With regard to the Support Fund for Basic Initiatives (FAIB) (*Fonds d'Appui pour les Initiatives de Base*), which is intended for prospective entrepreneurs, whether individual or collective, a total of 113 applications for financial support have been filed with the awarding committees. It is important to take a detailed look at the pattern of these awards. In 1998, according to the GRDR's summary report on *Support System for Multi-local Development in Migrants' Home Regions*, the awarding committees processed 69 applications, of which 9 were awarded financing, 26 were rejected as not being viable because of an insufficient cost/benefit ratio, 14 were referred to other more appropriate forms of financing, 6 were cancelled and 14 are currently under review.

These remittances involve substantial amounts when seen within the socio-economic context of the home countries and account for a significant portion of their foreign trade. World Bank statistics show that between 1995 and 1999, these transfers were equal to 14.5% of exports, 10% of imports, 25% of the official development assistance (ODA) provided to Mali and 4% of its GDP. For Senegal, it was equal to 2.7% of GDP. These figures show the magnitude of individual contributions, which on average can represent as much as 14% of Malian migrants' average annual salary[2] (see Tables 15.1 and 15.2).

The amounts transferred by migrants are used in different ways, ranging from consumption for the material sustenance of families to economic initiatives. However, the share that goes to savings as such, often kept in the host country, must be identified and remittances to the home country, which may include a share of savings or investment. Because of a lack of clear statistics, it is not always possible to estimate the amounts of these flows reliably, but this in no way calls into question the actual magnitude of the remittances to the home country. According to a recent study conducted in 2004 by a consortium of organisations under the co-ordination of the French committee for international solidarity (CFSI), 68% of remittances are informal.

Another joint study carried out by CIMADE-EUROPACT in 1998 provides an overview of monetary flows from migrants. Formally, three methods of transfer are practiced, *i.e.* bank transfers, postal money orders and money transfers through Western Union. These flows, which are estimated at FF 250 million, are to a large extent derived from social transfers (retirement pensions and family allowances). These methods do not account for all remittances since, because of the costs that they entail, migrants generally use informal channels to send their money. These channels are highly structured and are based on family relationships and networks of friends, and cost far less. The difficulty in

2. Cf. *Rapport migrations et phénomènes migratoires. Flux financiers, mobilisation de l'épargne et investissement local*, Co-ordinated by CFSI.

evaluating monetary flows is also due to the fact that only a small number of migrants from sub-Saharan Africa have current accounts. However, as the study shows, this in no way impairs their propensity to save, for 75% of Malian and Senegalese migrants have savings accounts and 94% of these are with French banks. The remainder are in banks in their home country. Among the African banking institutions that have taken the initiative of opening branch offices in France to transfer funds to the home country, are Malian banks such as the *Banque de l'Habitat du Mali*, the *Banque Internationale du Mali* (BIM, formerly BIAO), the *Banque de Développement du Mali* (BDM) the Bank of Africa Mali, the *Banque Malienne des Crédits et Dépôts* (BMCD) and the *Banque Nationale de Développement Agricole* (BNDA).

Despite its large number of migrants, Senegal has not had specific banking facilities since the *Banque de l'Habitat du Sénégal* in Paris was closed. It is for this reason that development associations prefer to place their funds in European banks such as the *Crédit Mutuel* and the *Crédit Coopératif*.

A major programme of initiatives launched by the GRDR in 2000 for "the promotion of migrants' involvement in the development of their home countries", which is focused in particular on the Senegal River Basin, is placing special emphasis on the "development of the diaspora's individual and collective savings in decentralised financial systems" by migrants. Objectives for action have been defined as follows:

- To encourage migrants to express clearly their needs and the contributions that they can make through remittances (and thus indirectly to encourage the managers and elected members of village solidarity banks to think about how the migrant factor can be harmoniously integrated into the development of their banks).
- To support migrants in host countries and indirectly managers of village solidarity banks in home countries in designing innovative financial products that will put the financial transfers of migrants to good use.
- To promote individual and collective investments in migrants' home villages aimed at improving living conditions and economic growth.

Two local bodies are in charge of this programme: the Support Programme for Self-managed Savings and Credit Systems (PASECA) in Mali, and the Fedde Development Service in Senegal. These two institutions have made it their mission to ensure that financial flows from migrants are organised as effectively as possible and are consolidated so that they can be made available for development operations. To this end, a networking process has been launched to interconnect all initiatives in the field of savings and remittances in hostels for migrants. For example, the *Association Inter-caisse du Cercle de Kayes* in Mali and the *Union des Caisses du Département de Bakel* in Senegal have been created to interlink village solidarity banks and are working to establish a better financial network in rural areas. To create synergy between these organisations and strengthen dialogue between development actors and financial networks, a co-operation system, the *Réseau d'Echanges sur le Financement Alternatif*, has been established. This system has been supplemented by other initiatives, such as the self-managed village savings and credit banks (CVECA, *Caisses Villageoises d'Epargne-Crédit Autogéré*) which enable local development actors to find local financing, particularly in Kayes and the Dogon country. The procedure and system for collecting funds, as described in the report co-ordinated by CFSI on mobilising savings and local investment, is as follows:

"Two persons for each village are designated in France and are responsible for collecting migrants' savings. The money collected is then deposited in the French bank Crédit Agricole, which organises the collective or individual transfer of funds to the CVECA's account at the Banque Nationale pour le Développement Agricole (BNDA) in Bamako. The BNDA then transfers the funds to the CVECA's account with the Bank of Africa (Kayes). The BOA (Kayes) then transfers the funds to the village bank. The CVECAs concerned delegate responsibility for the repatriation of funds to two designated persons. The migrants open a collective account in the CVECA in their village and deposit an amount of CFAF200 000, which is blocked to cover the risk involved in the transfer of funds from the account in Kayes to the village bank. Each migrant then opens an individual account in the village bank. The migrant designates a local representative who opens an account at the CVECA."

These local initiatives are co-ordinated through the major banks of countries, such as Senegal and Mali, in order to channel the funds available more effectively to the village savings banks. This is aimed at overcoming the handicap faced by isolated villages that cannot have direct access to the funds provided.

Investment methods and the situations in countries

Given the magnitude of the flow of remittances, countries began to take a strong interest in this issue at the inter-regional conference devoted to the participation of migrants in the development of their home country, held in Dakar on 9-13 October 2000, made possible by financial support from northern countries such as the United States, Italy, France, the European Union, and Swiss and Japanese foundations.

It is necessary to take stock of the situations in different countries with regard to the structure of savings and investment, even though it is difficult to make an objective evaluation of data because institutional structures are sometimes lacking in the countries in question.

Côte d'Ivoire has very few migrants abroad and no statistics are available in this field. In this regard it stands apart from the other countries of the sub-region, which consider emigration as a branch of their foreign trade. Remittances from Ivorian migrants are small and are not used to support development projects, as is the case elsewhere, but rather to build up individual assets that do not have any real economic impact. The absence of an institutional framework for managing emigration is a serious handicap to channelling and distributing investments within economic sectors.

Guinea, unlike the neighbouring Côte d'Ivoire, experienced major migration in the 1960s, but it was caused by political rather than economic reasons. During this period, remittances were sent through informal and even clandestine channels strictly for the use of families. With the end of the dictatorship, there was strong interest in investments from the diaspora, leading to the creation of a State Secretariat for Guineans Abroad in the 1980s, which was later incorporated into the Ministry for Foreign Affairs in 1997. These measures have encouraged migrant Guineans in all categories (management-level staff and others) to raise remittances to an unprecedented level in order to invest in economic sectors that in some cases did not previously exist.

For example, the Assistance and Employment Section of the Division for Guineans Abroad has introduced a number of measures aimed at organising transfers of migrants' funds and skills. A partnership and financial system has been set up to manage

remittances from the diaspora, in particular through the *Banque centrale de République de Guinée*, the *Banque Populaire Maroco Guinéenne* and the *Banque Internationale pour le Commerce et l'Industrie de la Guinée*. The Guinean Post Office also receives a substantial share of remittances and in recent years has developed a real strategy for attracting the clientele of the diaspora by forming a partnership with host countries such as Belgium, Côte d'Ivoire, France, Italy, Japan, Mali, Senegal, Spain, Switzerland and the United States.

To this can be added the Office for the Promotion of Private Investments (OPIP), which is developing a programme for channelling transfers of investments and know-how from Guineans abroad, but also from migrants of other nationalities who would like to invest in Guinea.

Alongside these institutional initiatives, migrants themselves are developing their own systems by pooling their resources to set up businesses in the fields of trade, herding, poultry and fish farming.

The most enterprising segment of Liberia's diaspora lives in the United States. Unlike some countries of the sub-region, remittances are mainly sent on an institutional basis through Western Union or individually through Money Grant, a financial institution. These remittances account for over 25% of the country's total foreign exchange earnings. Emigrants' investment goes to relatively unproductive sectors such as used cars and real estate. Sometimes a partnership with private investors is considered in leading sectors such as mining or wood exports.

Mali is one of the sub-Saharan African countries with the largest number of emigrants. They mainly live in Côte d'Ivoire, France, Gabon, Libya, Niger, Saudi Arabia, Senegal and Zambia. Despite the size of its expatriate population, Mali began to organise its diaspora at a late date. It was only after the political change that occurred in 1991 that institutional measures were taken to define a genuine public policy towards Malian migrants. In 1993, a Delegate-General for Malians Abroad was appointed in the Ministry for Foreign Affairs. An increasing number of branch offices of banks were opened in host countries, particularly in Paris, Tripoli and Libreville. To support measures aimed at consolidating initiatives more effectively within the diaspora, the High Council of Malians Abroad was created in 1991, with the primary mission of mobilising migrants' savings more effectively for the development of the country.

The issue of remittances has always concerned the role of the state and had social implications. This is why when the State began to disengage from rural areas in the 1980s, Malian emigrants themselves paid for the construction of post offices to ensure the continuous flow of remittances. The many problems due to the inefficiency of public services (money order delays, outstanding payments, etc) and the emergence of new private institutions specialised in money transfers have gradually led emigrants to give up using postal services.

The return of migrants to their home countries has generated a relatively large flow of funds. However, the first experience, which began in 1990, concerned a population of 538 emigrants living in France who, through individual or collective economic projects, were supposed to return to Mali through financial support from the host country. Unfortunately, this experiment was not very successful. Many reasons have been given, in particular administrative delay in issuing land titles, the lack of customs relief and above all the extremely high rates charged by the *Banque Nationale de Développement Agricole* (12% to 14% for associations and 14.5% for co-operatives). In addition to these

obstacles, which also concern infrastructure, there is above all "the lack of financial structures capable of assisting micro-projects locally". A major problem faced by these prospective first-generation entrepreneurs is also the lack of additional credit, which is essential to ensure the continuity of economic projects. There are other countries with comparable situations, such as Niger, but there are no data on emigration or migration policy, which makes it difficult to organise financial flows.

Development co-operation and migration

Both African institutions (regional, sub-regional) and international institutions have taken a number of steps aimed at organising skilled African migrants. The Lagos Plan of Action, the Organisation of African Unity (OAU), various resolutions of ECOWAS and the African Economic Community (AEC) are moving in the direction of better safeguarding the contributions of migrants by encouraging States to take adequate measures to "stop the brain drain and encourage the return of skilled labour, and adopt employment policies that allow the free movement of persons within the various regional economic communities". The IOM, for its part, is engaged in a series of initiatives, in particular through its regional field office in West Africa based in Dakar. Already in the 1990s it had launched a return programme aimed at facilitating the voluntary return and reintegration of West African migrants in Ghana, Guinea-Bissau and Cape Verde. This particularly active regional Field Office has set the following objectives: to "step up programmes aimed at facilitating the voluntary return and reintegration of West African migrants, in particular those whose skills may be useful to the development of home regions and especially disadvantaged regions, and help to create favourable conditions for the investment by migrants and the reintegration of those who choose to return voluntarily".[3]

The IOM has also set up a programme known as RQN for the return and reintegration of highly qualified nationals, with the support and financing of the European Union. Already in Africa as a whole, some 1 900 nationals from Angola, Cape Verde, Ethiopia, Ghana, Guinea-Bissau, Kenya, Sierra Leone, Somalia, Uganda, Zambia and Zimbabwe, have benefited from this programme.[4]

As can be seen, there are many institutional initiatives that provide support for investment and enterprise creation for migrants' economic projects. For example, in France, in the field of bilateral co-operation, there is the Interministerial Mission of the Ministry for Social Affairs and the Ministry for Foreign Affairs devoted to co-development, which has set as its priority "to promote productive investment by migrants by using transfers of funds from the host country to the home country" and to encourage skilled members of diasporas to use their skills for development. Under the Priority Solidarity Fund, up to EUR 7 000 can be granted to applicants with reintegration projects. However, this amount, which is rarely granted, is still not sufficient to ensure that new economic projects are launched successfully, as they require varied and lasting

3. Presentation by Eugenio Ambrosi, IOM Regional Representative for West Africa, *L'Afrique de l'Ouest est la région du continent qui produit le plus grand nombre de migrants* (West Africa is the Region of the Continent that Produces the Largest Number of Migrants).

4. Cf. Address by Mrs. N'Dioro N'Diaye, Deputy Director-General of the International Organisation for Migration, *Migration et développement: le fait migratoire est aussi ancien que l'Afrique* (Migration and Development: Migration is as Old as Africa), First African Union Western Hemisphere Diaspora Forum, 17-19 December 2002 Washington, D.C.

support that is unfortunately not available either from the banking institutions in home countries or from the host country because of insufficient collateral.

Another instrument introduced in this field by the Ministry for Social Affairs, Labour and Solidarity and administered by the Directorate for Population and Migration and the Ministry for Foreign Affairs, is the migration and economic initiatives programme, created in 2001 and aimed at assisting migrants to carry out economic projects in their home country. This scheme, which has been expanded around the PS-Eau water solidarity programme, has led to the establishment of a network known as the micro-business support group (GAME), which has produced a practical guide entitled *Returning home and starting your own business* and has provided migrants with a valuable operational tool. Through the Programme for Migration and Local Development (PDLM), it works with some 15 groups that provide assistance to migrants in the fields of investment and enterprise creation, including the following: the *Association pour le Conseil à la Création d'entreprises et la Coopération Internationale* (3CI); the *Association pour le Droit à l'Initiative Economique* (ADIE), *Cadres Sans Frontière Afrique International* (CSFAI); *Echanges, Financement, Information pour la Création d'Entreprises et d'Activités* (EFICEA); the *Groupement d'Intérêt Solidaire Economique et d'Echanges Equitables* (GISEE); the *Groupe de Recherche et de Réalisations pour le Développement Rural* (GRDR); the *Institut de Formation et d'Appui aux Initiatives de Développement* (IFAID); and the PS-Eau Programme. It concentrates on two activities:

- The provision of feasibility study grants in order to prepare migrant entrepreneurs to deal with the risks of investment in their home country. The amount of these grants (EUR 1 220), though small, enables entrepreneurs to avoid certain pitfalls when they launch their projects.

- "Remote investment" operations, which are currently under way in two countries, in Senegal, in partnership with *Crédit Mutuel de France*, and in Mali, with BICIM, a subsidiary of BNP Paribas. This programme has advantages for migrant entrepreneurs, as it allows them to provide collateral to banks in the home country so that their local partners can obtain the credit that they may need to launch their projects. Currently two projects are benefiting from this new mechanism for providing bank loans: a business firm in Kayes (Mali), for an amount of CFAF 4 million, and a construction company based in Rufisque, which received CFAF 8 million.

Alongside these initiatives in the North, there are also some African bodies that are seeking to organise the economic activity of migrants. Firstly, there is the Association for Training, Information and Rural Development in Africa (AFIDRA-Bamako) which, since its creation in 1993, has supported some 600 urban economic projects by migrant investors. These projects, which are in various sectors of activity, are not always significant from the standpoint of development because of the small amounts invested and their lack of impact on their economic environment. They are often affected by changes in public development co-operation policies, which make them dependant and vulnerable. This explains their high failure rate.

There are also organisations of qualified executives who make their specialised skills available to migrant entrepreneurs. An example is the Association of Engineers for the Development of the Sahel (*Collectif Ingénieurs Développement Sahel*, CIDS), which provides support and advice for some 250 individual projects in the Kayes region, particularly in the rural sector. The organisation Managers without Borders Africa (*Cadres sans Frontière Afrique*), founded by highly qualified migrants, which is active in

the field of training and support. It chiefly participates in three programmes within the PDLM Programme by acting as an interface between migrant entrepreneurs and lending institutions and by helping the former to prepare their economic projects. It is also participating in the remote investment scheme by supporting prospective entrepreneurs, primarily in Senegal, by working with partner financial institutions such as the *Crédit Mutuel du Sénégal*.

The Yaoundé enterprise creation centre is the local body operating on behalf of a Belgian organisation known by the name of *Overlegcentrum Integratie van Vluchtelingen*, which launched the programme Becoming an Entrepreneur in Cameroon in order to promote better economic integration of Cameroonian migrants living in Belgium. A scheme of financing and monitoring has been established to provide migrant entrepreneurs with the support required, which ranges between EUR 190 and EUR 1 200 per project. In addition to these financial grants, there is a possibility of credit at a rate of 5% over a period of 12 to 36 months. At present, the results of this programme are as follows: out of a total of 11 projects, only two have been unsuccessful, and 39 jobs have been created at a cost of EUR 5 526 each. However, the debt collection ratio remains low at 41%.

Other initiatives have also been started in Africa, as in the Democratic Republic of Congo, with the Centre for Support for Development, Information and Initiative on Appropriate Technologies *(Centre d'Encadrement pour le Développement, l'Information et l'Initiative sur les Technologies Appropriées*, CEDITA). Following a total of 200 studies conducted between 2000 and 2004, 32 enterprises have been started up by qualified migrants, generating 180 jobs. A manual entitled *A Practical Guide to Becoming an Entrepreneur in Kinshasa* has been made available to migrant entrepreneurs to help them manage their business successfully.

Most projects involve small commercial or transport businesses that do not require any special qualifications. Businesses are also being started in the sector of peri-urban market gardening, which naturally encounter difficulties in selling their produce because of market saturation. Some organisations, such as the Association for Training, Integration and Rural Development in Africa (AFIDRA) in Mali, have at times had as many as 500 projects, creating some 1 000 jobs.

Institutional programmes have been established to provide assistance to the economic initiatives of migrants. One of the most important initiatives in this field has been taken by GRDR with the Programme of Support for Prospective Entrepreneurs (*Programme d'Appui aux Porteurs de Projets Economiques*), launched in 1999. It provides interesting information both regarding demand and the profile of persons who have resettled in their home country in order to carry out an economic project planned while they were still emigrants. Three important elements seem to stand out in the typology established: 61% of prospective entrepreneurs are unemployed, 38% are aged over 50 and 55% arrived in France before 1980. This profile shows that the decision of migrants to become entrepreneurs is related to employment status, age and length of stay in the host country, and that they are more concerned about their personal economic reintegration than about development issues.

Highly skilled migration and economic initiatives

A study based on a sample of 20 entrepreneurs regarding economic investments made in their home country[5] shows the differences between migrants of rural origin who have little or no education, and educated migrants from cities. They are not always in the same sectors of activity, and often engage in individual economic activities that do not involve other members of the group to which they belong and show little concern for development issues.

Highly qualified migrants from sub-saharan Africa have never been considered specifically or taken into account in the dynamics of development. They are generally mixed together with other migrants. It has only been in recent years that they have come to be spoken of as actors in the development of their home country. However, the development projects financed by migrants sometimes include executives, who paradoxically do not emphasise their skills but rather their solidarity. Skilled migration is perceived as a loss for home countries. This is then spoken of as the "brain drain". The annual flows of managerial-level staff to developed countries are estimated at over 20 000 and the losses at several billion dollars, according to the IOM[6] (Tables 15.3 and 15.4).

When these data are examined, they reveal a very diverse breakdown of skill profiles that correspond to the sectors in which the sub-Saharan African countries are most in need of labour and that most often require skilled managerial-level staff from Northern countries who are sent in the framework of co-operation or recruited directly. The basic problem is the lack of operational systems to attract significant flows of skilled workers to the home country. Within African institutions, there are a number of initiatives that show that governments are increasingly aware of the urgency of acting to create a new dynamics of development based on the diaspora option. The Conference on Brain Drain and Capacity Building in Africa held at African Union headquarters in Addis Ababa in February 2002, sponsored by the IOM, the Economic Commission for Africa (ECA) and the International Development Research Centre (IDRC), defined the following objectives:

- The creation of knowledge blocks.
- The establishment of a database on the brain drain and capacity building in Africa.
- The building of a partnership network between the African diaspora and home countries.

The IOM also agrees with this approach to African capacity building by developing action programmes to facilitate not only the mobilisation of the diaspora's skills, but also of their financial resources for the development of their home countries. Even though this is not the dominant trend, it should be pointed out that there is a programme known as "Return of Skilled African Citizens" that has supported for the past 20 years the effective return to their home countries and successful professional integration of 2 000 highly qualified Africans. This highly selective programme is aimed at persons holding a doctorate or master's degree, with at least two years of work experience. The initial logistical support provided to candidates is a key factor for their subsequent integration.

5. Cf. Samba Yatéra, Mahamet Timéra, Olivier Kaba (2000), *Les investissements économiques des migrants dans leur pays d'origine: rencontre de 20 entrepreneurs*, August.

6. Cf. Presentation by Mrs. N'Dioro N'Diaye, *op. cit*.

Some sub-Saharan African countries such as Côte d'Ivoire, Guinea, Mali and Senegal have benefited from this programme.

The MIDA programmes have made possible the more judicious use of skills in Africa by targeting sectoral demand according to skill profiles. The results obtained are positive on the whole, even though much remains to be done. A questionnaire was distributed at a MIDA workshop in Libreville in 2001 to the various African countries present. The results show the most pressing needs are clearly in the education and health care sectors, far more than the sectors that concern economic development (Table 15.5).

Meeting the sub-Saharan African countries' needs for skilled professionals is also the task of associations, which are seeking, with great difficulty, to launch development initiatives aimed at home countries. It is difficult for these initiatives to succeed because of the lack of support from States and co-operation institutions. This is the case of the *Groupe Diallo Telli*, *Senegal 2000* and the *Groupe Sahel Recherche*, associations of African managers, which are aimed primarily at transferring their skills to their home countries but whose projects often fail, hampered as they frequently are by institutional obstacles in the home countries and a lack of resources.

However, there are other organisations for scientific diasporas, such as north American foundations like the Ford, Rockefeller and MacArthur Foundations, which have provided significant support to African researchers. In Europe, there is the *Agence pour l'Investissement dans la Recherche à l'Etranger* (AIRE) in France and the Aldo Moro Foundation in Italy, which provide support for projects initiated by African scientists. Many initiatives have been carried out from Italy, for example, in the field of telemedicine, involving health care organisations that provide technical support for projects that require a transfer of skills of African medical professionals of the diaspora. In Sweden, the Stockholm-based International Foundation for Science, the main objective of which is to promote the capacity building of researchers in the South, has in recent years successfully financed the professional integration of over 1 000 African academics into their national scientific communities.

Conclusions

In summary, remittances and economic initiatives aimed at home countries continue to have a considerable impact both at the local level and in terms of the institutional transformations that they generate. Despite these contributions, there are still difficulties of co-ordination and coherence between public policies, migration dynamics and international co-operation. Because of these shortcomings, transfers and consequently investments are poorly targeted. Since the 1990s, new niches of opportunity have been emerging in medium-sized cities in rural areas that should be better exploited in territorial development policy. A less "elitist" distribution of the migration windfall, which is focused on capitals that are often far away from the priority areas of migrants, is one of the anomalies that must be corrected. Lastly, the different realities of migration (highly qualified and manual workers) must be better taken into account so that transfers of funds can be combined with transfers of skills to create a new development synergy aimed at ensuring greater autonomy of sub-Saharan African countries.

Table 15.1. Financial contributions of the African diaspora

Country	USD million	Percentage of GDP
Nigeria	1 301	3.71
Eritrea	127	19.68
Senegal	93	1.95
Mali	84	3.26
Benin	73	3.08
Cape Verde	69	11.87
Burkina Faso	67	2.59
Comoros	12	6.21

Source: Immigration and Naturalisation Service (2000), *Statistical Yearbook.*

Table 15.2. Remittances and official development assistance

Country	Remittances in million USD	Official development assistance	Percentage
Nigeria	1 301	152	855.0
Benin	73	211	34.59
Eritrea	127	148	85.81
Senegal	93	534	17.41
Mali	84	354	23.72
Cape Verde	69	136	50.73
Burkina Faso	67	398	16.83
Comoros	12	21	57.14

Source: Immigration and Naturalisation Service (2000), *Statistical Yearbook.*

Table 15.3. Population of the African diaspora in Europe

Country	Population
France	1 633 142
Germany	305 595
Italy	296 344
United Kingdom	277 000
Netherlands	175 450
Belgium	171 124
Spain	142 816
Portugal	81 717

Source: Immigration and Naturalisation Service (2000), *Statistical Yearbook.*

Table 15.4. Africans of the diaspora by occupation

Occupation	%
Teaching, education, research	22
Finance, investment, business	20
Health care	20
Engineering	15
Agriculture, environment	9
Information technology	5
Law	5
Government	3
Natural sciences	1

Source: Immigration and Naturalisation Service (2000), *Statistical Yearbook.*

Table 15.5. Priority needs for skilled professionals in African countries

Profession	%
Education	83
Health care	71
Agriculture	68
Finance/investment	28
Justice/government	25
Information technology	25
Scientific research	21
Environment	17

Source: Immigration and Naturalisation Service (2000), *Statistical Yearbook*

CHAPTER 16.

"MIGRATION AND DEVELOPMENT": A NON-GOVERNMENTAL ORGANISATION INVOLVED IN CO-DEVELOPMENT

by

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Introduction

Historically, domestic migration preceded migration abroad. Internal migration flows are linked closely to development programmes in urban areas, to the detriment of rural areas. Industrialisation policies have resulted in the migration of workers from rural areas to the main urban centres of Casablanca, Rabat and Agadir. In the early 20th century, the attraction of a better world through immigration was promoted during both World Wars, at a time when France was looking for volunteers in Morocco to reinforce the French army. Enlistment, by villagers, and especially by notable and literate members of the community (such as teachers), radically altered the perception of social success. Migration was already being perceived as the sole path to success. Until the mid-1960s, many workers emigrated to France, due primarily to the pull effect exerted by the demand of French industry.[1] It was this wave of immigration that brought Jamal Lahoussein to France. The co-development activities of *Migrations et Développement* cannot be discussed without a brief detour to tell the story of this man, to gain a better understanding of the genesis of private initiatives to promote village development back home. Having lost his job in a steel factory in 1986, Jamal triggered a dynamic process by investing his severance package in an electrification project in his native village. For this, he convinced other colleagues to pool their own payouts in order to undertake a joint project. This is how the non-governmental organisation (NGO) *Migrations et Développement* (M&D) begun. At first, *Migrations et Développement* was called *Retour et Développement*, but the name was changed in 1989 because its suggestion of irreversible return made migrants wary.

Migrations et Développement was created to promote the integration of migrants into society and to undertake development actions in the regions where immigration originates. The mobilisation of migrants is the source, *raison d'être* and driving force

1. A distinction is made between a pull effect (wherein the host country's attraction to migrants is the major factor) and the push effect (wherein migrants' desire to leave their home country is paramount). When both effects are at work, migration is maximised.

behind M&D's initiatives: by instigating development projects, they and their families regain status in their villages, further their integration in their host country and work to bring the people of both shores of the Mediterranean closer together. Since its inception, M&D has enlisted migrants of diverse origins and others in Europe wishing to make personal contributions to solidarity initiatives. Since 1996, M&D has been recognised as an international NGO by the Moroccan government.

Getting local development under way by enlisting migrants

Migrations et Développement works essentially in the Anti-Atlas region of Morocco, a land hard hit by drought since the mid-1970s. The organisation has worked there ceaselessly to promote medium and long-term initiatives to develop this isolated region with a rudimentary, if any, infrastructure. But *Migrations et Développement*'s aim is not merely to carry out projects, but to catalyse development by enlisting the participation of various players, and migrants in particular. From the outset, M&D has been supporting a number of groups of migrants, to help them contribute to their native country's development.

The foundations of local development: basic infrastructure[2]

The main achievements to date have involved:

- A vast decentralised electrification project covering 116 villages in four provinces of southern Morocco, extending the Moroccan government's overall rural electrification programme to over 520 villages in Taroudannt province and 1 500 villages in Morocco as a whole in 2004.
- Work to improve village drinking water supplies and foster crop irrigation: over 100 wells were dug, and 14 headwater dams and 25 pumps have been installed since 1970; a 350-hectare irrigation programme was undertaken in market town areas to restore the cultivation of saffron.
- The launch, together with elected officials and local authorities, in the early 1990s, of roadway infrastructure in Taroudannt province (roads and trails). It is important to note that in 1999 300 000 people lived in hard-to-reach locations, and that of the 89 communities comprising the province, 39 were not yet linked to the road system. In all, the efforts undertaken under the evaluation and capitalisation of local initiatives programme made it possible to lay 603 km of roads to access the 39 rural communities that had not yet been linked to the national roadway network.
- Concurrently with the first electrification projects, M&D developed non-formal schools for youth aged between 6 and 18 in a single class, with schedules and pedagogical methods tailored to village needs, and medical dispensaries funded by charities were built. Since 1996, M&D has built and run 26 schools whose staff are destined to be agents of development for their villages. At the end of 2002, the Moroccan government expressed a determination to provide schooling in small remote villages, creating a Secretariat of State for Literacy and Non-

2. For further details, see the recent book by Zakia Daoud, *Marocains de l'autre rive*, published jointly in February 2005 by Paris-Méditerranée-France and Tarif Éditions Maroc, which presents a panorama of M&D's initiatives since it was founded.

Formal Education within the Ministry for National Education and Youth. Even so, many problems remain: in Taroudannt province alone, 165 douars (villages) still have no schools. Regarding construction of charity-funded medical dispensaries, the major difficulty stems from a shortage of medical staff (nurses).

To ensure sustainable development for a region also entails heightening the awareness of people on both shores – migrants and indigenous populations alike, French and Moroccans of the second or third generations – of the ties that bind France and Morocco. M&D's bilateral exchange programmes seek to increase knowledge of the region amongst young French people, whether from immigrant families or not, but also to host Moroccans in France so as to promote contacts that can lead to twinnings initiatives between regions. Since 1989, more than 100 youth exchange programmes have taken place, with over 1 000 participants. These programmes have given each group opportunities to become involved, alongside host community villagers, in initiatives for improvements (constructing irrigation canals and small buildings), discovering a different culture (in many cases that of their parents), while at the same time fostering awareness among firms about development issues.

Possible transition: expansion of income-producing activities and solidarity-based tourism

Since 1999, development has focused on economic investment to exploit local products and rural tourism. Ensuring sustainable development in a region also entails training the parties involved, thus providing them with the particular infrastructure they need to take control of their own development. It means lending support to civil society, and structuring it, to foster local democracy. To meet these demands, M&D has formulated rules inspired by participatory methods, the prerequisite for sustainable development projects. This is why M&D advocates creating and federating village associations to administer joint projects. Such organisations enable villagers and migrants to take over and run electrification, irrigation and road-building projects. In addition, they enable active partnerships between migrants and their home villages, while shortening project completion times and cutting costs. Lastly, they create employment at the local level.

To meet these challenges and promote the concept of integrated sustainable development, M&D has joined forces with numerous partners to institute a joint action plan for Taroudannt province. Launched in 2002, this ambitious programme offers new growth prospects and opens new vistas. It promotes a comprehensive approach to development that considers both infrastructure and socio-economic, environmental and cultural aspects. Preferences are to develop solidarity tourism, which *inter alia* seeks to involve local crafts; develop the olive oil industry; exploit saffron and dairy production, and support products derived from the local argan tree (such as oils and soap). All these projects seek to reap maximum benefit from natural riches and local know-how, while preserving the ecological and cultural balance of this magnificent region.

Development education: prerequisite for launching local development

Migrations et Développement has been able to arrange group transfers of money and channel them to infrastructure projects. The transfers have been made on a one-off basis, in line with the motivations of the people involved. Migrants have helped strengthen civil society and North-South contacts – economic, social and cultural – by transferring funds, skills and other know-how acquired in the North. They have become special partners and

true agents of local development, involved in the creation and continued existence of over 450 village associations in Morocco and in the organisation of more than 30 European associations in M&D's areas of action. By carrying out projects, the local people have learned about local development. Migrants initially supported by M&D have been able to forge direct ties with village associations and undertake new development projects. The projects M&D has initiated for electrification, for example, have not only provided access to energy for all the villagers, but they have also constituted development funds for other projects. Today, for example, most village associations that have invested in an electrification project have roughly EUR 15 000 on hand, based on a savings system that forms a genuine development fund. Villages that were once dependent on the outside world have become self-sufficient and can keep their projects in operation. In this way they have become less vulnerable. The example of the village of Imgoun illustrates the dynamics of development, launched by M&D, with the participation of migrants.

Box 16.1. An example of how development gets started: the village of Imgoun

In 1989, after two years of deliberation, the Imgoun village association undertook to electrify the village and to install 134 electricity meters, backed by immigrants who contributed 30% of total project financing. By levying a monthly tax of EUR 2 on each meter, in addition to collecting electricity bills, a development fund could be built up which would make it possible to carry out many other projects.

1990: The Imgoun school was rehabilitated in partnership with M&D.

1992: The Imgoun dispensary was built.

1996: Three headwater dams were built.

2003: 2.5 km of roads were paved.

2004: 150 hectares of town areas were rehabilitated as an irrigation district and 1.5 km of irrigation canals were dug.

2005: An agricultural co-operative was created in the rural municipality of Tassousfi, not far from Imgoun, with a majority of Imgoun farmers as members.

In addition, each village association holds general assemblies, to collect dues from every member in order to carry out community projects. The initial investments of immigrants are thus exceeded by the dynamics set in motion. Because each person in a village can potentially take part in a project, new relationships are introduced, as village notables are no longer the only people involved.

Assessing the experience of "Migrations et Développement"

An external evaluation of *Migrations et Développement* was carried out between the summer of 2003 and early 2004 by Jean-Louis Pallanca. This assessment shows that the effects of projects carried out by M&D "have only positive impacts for recipients":

- Improved relations between populations and political/administrative authorities.
- Improved relations between migrants and villagers, between generations within villages, and between migrants themselves.

- A shift in the balance of intra-village relations, restoring greater influence to active villagers as compared with elders (although women still need to acquire greater influence).
- Improved access to, and rational management of, water, impacting positively on health.
- Transfer of technical, organisational and managerial skills.
- Greater autonomy for villagers who, in the light of successfully completed projects, have become aware of the role they can play in the development of the region.

Other elements are also important to emphasise and are fundamental parts of M&D's action.

- The infrastructure built by M&D with migrants and villagers continues to function after the association leaves: technical autonomy with respect to electricity is "virtually total", and facilities that have been built have suffered "no malfunctions".
- The institutions created when M&D intervenes – the village associations – live on after the initial projects ("nowhere did we find that an association ceased to exist because a project had come to an end").
- M&D's actions have prompted the creation or expansion of a number of craft enterprises, shifting from the informal to the formal economy (*e.g.* electricity, wells, civil engineering), along with co-operatives for producers (men and women alike).

For M&D, all of these elements are a validation of the participatory method it has adopted: M&D's initiatives are truly appropriated by villagers. The process is self-sustaining, and the transfers of technical skills and organisational methods are long-lasting. M&D had to struggle to change people's way of thinking, enlist the participation in projects of the Moroccan and French governments, as well as the European Union, and attune local leaders to development programmes. The energy of the workers (volunteers and paid staff alike) has prevailed over these difficulties. Today, M&D initiatives span larger territories and involve many local and outside partners, making M&D's participatory approach more complex, both financially and from an organisational viewpoint.

In Morocco, the situation is evolving: decentralisation is taking hold and M&D initiatives are increasingly attracting the interest of local governments and elected officials. M&D frequently co-ordinates its action with various central government agencies (in areas including agriculture, infrastructure, healthcare and education). The development association movement is expanding, and village associations are combining to carry out joint initiatives. M&D has succeeded in harnessing Moroccan financing for a variety of projects, encompassing tourism, village micro-projects, irrigation, workshops for improving agricultural produce, and so on. The increasing support for M&D's activities from the Moroccan authorities at national level is not always in tune with that of the administration and state services at the local level. This shows both the political gap between the national and local levels, and M&D's difficult task of supporting changes locally while avoiding conflicts which may hinder progress. In addition, the association has been asked by the Moroccan authorities to share its experience in formulating public

policies to fight rural poverty. Local authorities in Morocco have also sought M&D's advice. However, these requests, which mobilise M&D officials, are time-consuming.

Nevertheless, the situation is still tenuous. M&D has to cope with far-reaching changes in Moroccan migration:

- Ageing of the first generation of migrants.
- Emergence of a diaspora (managers, students, merchants and tradespeople).
- Expanding new roles for women.

It is in view of these far-reaching changes that Migrations et Développement has been prompted to set new orientations:

- Expand the areas of intervention, which now encompass all dimensions of development, from basic infrastructure to economic activities, and include education, healthcare and the fight against child labour, with one common theme: learning about democracy through action.
- Strengthen partnerships with local authorities (rural municipalities, provinces), in regard to Moroccan decentralisation policy.
- Respond to the growing importance of adult training in local governance (officials from village associations, rural municipalities and decentralised administrations).
- Support village economic activities to help them in negotiating contracts (support for co-operatives, training for their members).
- Set up networks between actors in the field (federations of village associations and co-operatives) and migrants in the host country.

Conclusion

In 1986, the year it was founded, M&D was above all indistinguishable from the story of one man – Jamal – and a group of migrants from the Maghreb who, confronted with the shutdown of their factory in the Hautes Alpes, sought to create viable conditions for a return to their home country. Faced very soon with the under-development of their native village, and with help from other associations and numerous mutual assistance networks, they wrote the history of M&D. Eighteen years to transform the lives of isolated villages, to restore ties between migrants and to find another place in France, their adopted land. Eighteen years in which M&D's example was taken up by others, with over 450 village associations in Morocco taking charge of their development and managing their first infrastructure, and the creation, through example and support, of numerous associations of immigrants in France (OSIM) destined to promote other development projects in Morocco and to improve the integration of migrants in their host country. Eighteen years of effort, networked with other associations, experts from many countries, researchers working on the "M&D method", local officials and Moroccan authorities at the highest level.

Today, the face of M&D has changed, but not its spirit. Initially a service provider, throughout its history M&D has become a "facilitator" and a mediator for the many parties striving for development in the Anti-Atlas region. M&D's action has given a decisive thrust in an area where the Moroccan government had little presence (especially with regard to electrification and education in villages). But success also has its

downside. It is no longer possible to communicate or to operate as in the beginning. Today M&D is confronted with growing organisational complexity and an ever-increasing number of actors, donors and providers concerned by the development initiatives. There are differences between what villagers want and the orientations of donor programmes, and with recurring cash flow problems stemming from the individual schedules of the financial partners. In addition, networks and outposts are spread over a vaster expanse of territory, making it difficult to sustain contacts between villagers and migrants. Today M&D has to come to terms with its growth, which is not a simple matter. But does this mean that the association should abandon its ambitions and deviate from its initial mission? Far from it! M&D is fully prepared to take on these difficulties and knows that its ability to adapt, the flexibility and the generosity of all those who have worked with M&D until now, have constituted the association's strength and ensured its success. Today the ambitions and goals are the same: to carry out development initiatives in migrants' native areas, stem the tide of emigration and use the dynamics of immigration as a force for development.

The challenges to be met are many, and there is no shortage of problems to be solved. Migrants do not transfer financial flows alone, but also contribute to their native country's development through "invisible" transfers of know-how, social and cultural exchanges. The heart of co-development initiatives is based precisely on these mechanisms, combining both financial transfers and invisible transfers of learning.

PART V.

REMITTANCES AND PROMOTION OF DEVELOPMENT: SOME PROPOSALS

CHAPTER 17.

INCORPORATING INSIGHTS FROM MIGRATION RESEARCH INTO POLICY ON REMITTANCES[1]

by

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Introduction

Research and policy on remittances engage a variety of economists, public policy specialists, and migration scholars, among others. Maximising the benefits of remittances for development is a formidable task that requires an inter-disciplinary approach. This chapter is intended to highlight the potential of migration studies perspectives to inform policy on remittances and development.

It is useful to distinguish between different types of remittance flows with reference to their migration context. First, there are the classical intra-family transfers that are usually associated with the word remittances: money sent by a migrant worker to relatives in the country of origin. These are essentially gifts, although there may be socially conditioned restrictions or expectations concerning their use. Second, there is what might be called personal investment transfers, either in the form of regular deposits, or in the form of a one-off transfer upon return. In this case, the migrant directly controls the expenditure. Third, there are collective transfers, for instance through a hometown association, usually directed towards a collective beneficiary. Finally, social security transfers in the form of old-age pensions and other benefits are increasingly important. These four types of transfers have different relative importance at various stages of migrants' lives. Their importance also varies between countries of origin, depending on such factors as the dominant forms and destinations of migration, and the maturity of the diaspora. These variations are an important reason why remittances-related policies have to be adapted to individual contexts. This chapter is primarily concerned with intra-family remittances.

1. This chapter is based in part on research funded by the Norwegian Agency for Development Cooperation (Carling, 2004b and 2005).

Migration dynamics and remittance flows

Remittance flows are fundamentally linked to the demographic dynamics of migration and transnational kinship. This is not always adequately considered when remittance behaviour is explained with reference to only economic or cultural factors. The migration context is important to the balance between the different types of remittances outlined above, and to the dynamics of intra-family transfers in particular. Intra-family remittances are often best understood as obligations between family members that are being sustained despite the geographical separation of the family. In countries without an adequate old-age pension system, it is often taken for granted that adult children support their elderly parents. If the children emigrate, they may be in a better position to provide this support, and there is not necessarily any reason why their obligation or commitment to providing it should decline. In this process, support to family members is transformed from statistically invisible intra-household redistribution to international financial flows.

The existence of transnational family ties is a necessity, but not a sufficient precondition for intra-family remittances to be sent. Such family ties are the outcome of migration processes on the one hand and cultural conceptions of the family on the other. While biological facts of kinship are indisputable, the significance of blood relations is highly variable. For instance, migrants' commitment to supporting parents who remain in the country of origin is a near-universal feature of remittance behaviour. The importance of ties with siblings, for instance, is much more dependent on the cultural context.

It will always be the case that some migrants send remittances while others do not. Explanations for this variation can be found partly in transnational family structures and partly in the migrants' individual propensity to send remittances. Figure 19.1 presents a simplified model of this dual approach. In reality, neither sending/receiving remittances nor having transnational family ties are dichotomous variables. The model is an analytical simplification. In the country of destination – the right-hand side of the model – some migrants do not send remittances because they do not have family members in the country of origin (D_3–D_2), while others have family members but chose not to remit to them (D_2–D_1). The proportion of migrants sending remittances can therefore be analytically broken down into the product of two factors: the proportion of people who have relatives in the country of origin, and the proportion of those with relatives who send remittances to them. In mathematical terms, $D_1 / D_3 = D_2 / D_3 \times D_1 / D_2$.

This simple statement can be of use in analysing differences between sub-groups in the propensity to remit. For instance, Sri Lankan and Vietnamese immigrants in Norway both stand out as more frequent remitters than other groups, but for different reasons. In the case of Sri Lankans, a large proportion of people have close relatives in Sri Lanka, and a relatively large proportion of those with relatives send remittances. By contrast, relatively few Vietnamese have close relatives in Vietnam, but virtually all those who have send remittances regularly.[2]

Similar explanations can be made with reference to remittance receivers in the country of origin (the left hand side of Figure 19.1). In countries with substantial emigration, remittance income can be an important source of socio-economic stratification. If the poorest segments of the population have limited access to emigration opportunities, it

2. Findings from background research for Carling (2004a).

would be expected that the fraction O_2 / O_3 to be lower among the poor. However, it could be that among people with relatives abroad, the poorest are more likely to receive remittances. In other words, the socio-economic variation in O_1 / O_2 could be the opposite of the variation in O_2 / O_3.[3]

Analyses of the structure of transnational family ties can also help understand changes in remittance flows over time. When a decline in the flow of remittances between two countries is observed, several explanations are possible: 1) fewer people have family members in the country of origin (a decline in D_2), 2) a smaller proportion of people with family members send remittances (a decline in D_1 / D_2), 3) people who remit send lower amounts. In many cases, the first of these will follow from the demographic maturing of a migrant community. As time passes, more migrants are joined by spouses and children from the country of origin and fewer migrants have parents still alive in the country of origin. The inter-generational contrasts in remittance behaviour also owe much to differences in transnational family structures. While first generation migrants often have parents and siblings that are potential remittance receivers, the second generation is more likely to have cousins and grand-parents as their closest relatives in the country of origin. This absolute difference in family structure is often coupled with differences in the perception of family ties and obligations.

The policy implications of these insights are primarily indirect. Analysing remittances flows in a context of migration and transnational kinship allows for better understanding of the dynamics of inequality and change over time. Demographic analyses with this approach facilitate long term planning and prediction of remittances flows.

Relations between migrants and non-migrants

The sending and receiving remittances should not be seen in isolation from the more comprehensive relations between migrants and non-migrants in the country of origin. This is often an ambivalent and complex relationship – in a surprisingly similar way across cultural contexts.[4] Non-migrants often relate to emigrants with a combination of gratitude, envy, admiration and sometimes contempt (for not upholding cultural values, or for failing to provide adequate remittances). In many cases, this relationship is heavily influenced by a context of emigration pressure, where many non-migrants want to emigrate but lack the opportunity to do so.[5]

The distance between family members creates conditions of asymmetric information. The remitter cannot directly observe the activities of the recipients and therefore has limited influence on how the remittances affect the behaviour and spending of the receiving household. This can often be a source of tension or conflicts between family members. It is common for migrants to complain that their non-migrant relatives who receive remittances don't appreciate the efforts behind the money and spend it carelessly. Migrants can also be concerned if recipients spend remittances in ways that are invisible to neighbours and relatives, who might wrongfully conclude that no remittances are being

3. Research in progress by the author suggests that this is the case in Cape Verde.

4. See, for instance, Åkesson (2004), Gowricharn (2004), Levitt (2001), McMurray (2001), Oxfeld (1998), Strijp (1997) for research that addresses relations between on migrants and non-migrants.

5. See Carling (2002) for a more thorough discussion.

sent. Non-migrant remittance recipients, on the other hand, can feel powerless and vulnerable if the remittance income is unpredictable.

Relations between emigrants and non-migrant public servants in particular are sometimes strained. Emigrants who wish to build houses or otherwise invest in the country of origin are often frustrated by a bureaucracy that may be inefficient and unprofessional in relation to what they are used to in their countries of employment. Public servants, on the other hand, can perceive the emigrants as arrogant and demanding. In typical contexts of labour emigration, emigrants are poorly educated but relatively wealthy compared to public servants who try to make ends meet with a local salary. This structural context has implications for the interpersonal relations of the public service interface. Migrants' interaction with authorities in the host country is likely to impact upon their perceptions and judgement of the performance of home country authorities. Migrants who wish to invest – individually or through hometown associations – are likely to expect the government to reciprocate their benevolence. If development projects are stranded or delayed because of what is perceived as incompetence or ill-will in the local government, this could have profound impacts on the government's credibility in the diaspora community.

The challenge of making migration and remittances contribute to development cannot be detached from the role of migrants in their society of origin. Successful policy measures directed at emigrants must perform well on two different fronts: on the one hand, the policy initiatives should be perceived as professional, attractive and sincere by emigrants themselves. On the other, they should not be perceived by non-migrants as pampering of an arrogant elite. This could create tensions between migrants and non-migrants that jeopardise potential development benefits of migration. Strategic considerations based on understanding of cultural dynamics and public relations therefore need to be made at early stages of remittances policy formulation.

The pitfalls outlined above have several implications for policy. Policies that target emigrants indirectly deserve special attention because they minimise the possible negative social effects of giving an already privileged group special treatment. Indirect targeting can be based on analyses of the bottlenecks restricting migrants' investment in particular, they can be concentrated geographically in regions of out-migration, or make use of social arenas with heavy emigrant presence, such as the Internet. Indirect targeting usually means a smaller element of social engineering than in policies that attempt to alter the behaviour of specific groups. The difference between policies that address structural elements of the SME investment climate versus policies that specifically attempt to promote entrepreneurship among migrants illustrates this point.

There are also many possible development policy measures that do not target emigrants, but which can have an added impact due to the existing migration and transnational practices (including remittance flows). This applies to public sector reform, particularly as it affects investment. Out-migration from a poor country represents a potential that similarly disadvantaged countries without significant emigration lack. The returns to policies that are commendable in many settings could therefore be greater where out-migration is significant

Long-term diaspora management

The indirect policy measures outlined in the previous section do not preclude simultaneous measures aimed at nationals abroad. As mentioned above, winning the

confidence of emigrants is a key challenge for policy measures relating to remittances and development. This requires not only careful design of specific measures, but a long-term overall strategy of diaspora management. Migration scholars have analysed how home country governments engage in the processes through which the social category of migrant and the notion of a diaspora are embedded with meaning.[6] For instance, leaders of the Philippines and Mexico have actively sought to discursively construct migrants as national heroes. While this is recognised, interpreted as an instrumental move, and attributed great significance, analyses of discourse are – to the knowledge of the author – absent from policy recommendations in the literature on remittances. National governments must reflect upon how they see the diaspora's role in national development, and how they can communicate this to diaspora members and to non-migrants at home.

Lowell and de la Garza (2000) write with reference to Latino migration to the United States that "as yesterday's new arrivals adjust, and as today's number of new arrivals falls, the combined effect may be that remittances have peaked". Sending country governments facing this challenge can seek to reverse or delay the fall in remittances by engaging actively with their diaspora. As noted above, recent migrants are likely to have close relatives in the country of origin, whereas their descendants usually have more distant relatives. Contributions from an established diaspora consequently have to be structured in other ways than through close kinship ties. Migrant associations can play a key role here, as they often do among recent migrants as well.

A caveat is in order regarding the role of migrant associations. Hometown associations (HTAs) and migrant associations more generally sometimes constitute vehicles for individual migrants to realise positions of leadership that might otherwise not be available to them. Hometown association leaders who successfully manage projects and mobilise government funds not only contribute to their communities of origin, but also find their leadership reinforced. In societies with a strong element of clientelism, the opportunities organisations offer for individual careers often lead to institutional multiplication – a multitude of small organisations with many leaders and few members. This characteristic of the institutional landscape can in fact discourage the majority of migrants or diaspora members from organising.

Two policy implications arise from the preceding discussion. First, it is necessary to explore alternative ways of reaching and engaging with the diaspora in addition to HTAs and family networks. The Internet represents important opportunities in this respect, especially because many diaspora members are already using ethnically-oriented internet services. Second, good analyses of institutional dynamics should inform engagement with HTAs and other migrant associations.[7]

Conclusion

The challenge of maximising the benefits of remittances requires communication between academics, policy makers and civil society. This publication is an excellent initiative in this respect. However, there is also potential for greater cross-fertilisation between academic disciplines. Economists, anthropologists and political scientists, for

6. The jargon of different disciplines diverges here, but there underlying analysis can have commonalities across disciplines. What is referred to as 'discursive construction' and 'embedding with meaning' in constructivist social science has clear parallels in marketing and public relations, although under different names.

7. Examples of such analyses include Goldring (1998) and Graça (2000).

instance, approach the study of remittances in highly different ways. This chapter has sought to highlight some of the insights from migration studies that can inform the research of scholars with other background and contribute to the formulation of sound policies.

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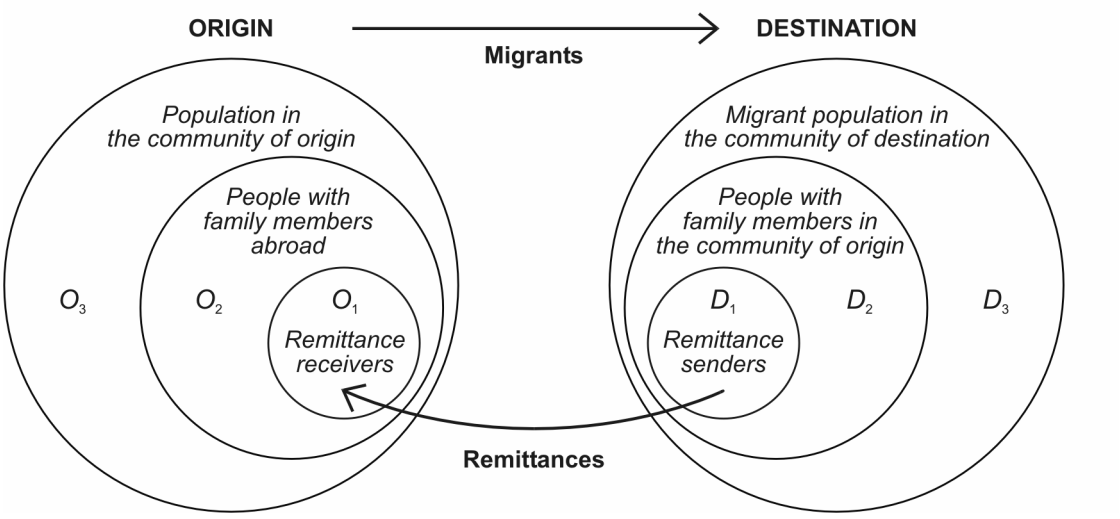
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Figure 17.1. A model of groups implicated in migration flows



CHAPTER 18.

TURNING REMITTANCES INTO INVESTMENTS

by

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Introduction

The re-discovery of remittances as a major international financial flow has increased ambitions to manage and channel these funds into formal sector financial markets, to be used as loan funds for development projects or to be invested in the economy. Before devising grandiose schemes to re-direct them away from their current channels and uses, it should be remembered that remittances are privately owned funds. Government policy should start from an understanding of that, *i.e.* from an objective analysis of the potential and limitations of migrants' remittances to serve government policy aims. Much of the literature focuses on how remittances are spent by the recipients (generally spouses, children, parents and siblings) and their implications for the economies of their communities (often in terms of costs and benefits),[1] but less on the effectiveness of policies on remittances. Very little research has been carried out on the assessment of the policies applied to promote the impact of remittances on development policy. The history of migrant remittances includes a variety of policies, both failed and successful.

This chapter aims to draw some lessons from the experiences of attempts to turn migrant savings into investments and enterprise development. Based on a review and assessment of the impact of a broad range of policies governing remittances, an attempt is made at answering the following questions:

- Why do labour-sending countries need to attract migrant remittances for investment?
- Can *laissez-faire* policy turn migrants' savings into investments?
- What are the factors that shape migrants' decisions to invest?
- What are the limitations and the potential for the flow of migrant remittances to be used for investment purposes?

1. *Migrant Remittances to Latin America: Reviewing the Literature,* Deborah Waller Meyers.

- How can a set of investment promotion techniques for migrants' savings be designed?
- Can tax and monetary concessions help turn remittances into investments?
- What is good and what is bad governance?

The analysis is based on the understanding that the flow of remittances is fragmented and possessed by many different owners. For the purpose of governance, this flow needs to be very specific, navigated by a complex of factors such as those determining both foreign investment and local small and medium-sized enterprise (SME) development. The specificity of remittances is their very personal nature, and their ultimate aim to assure the survival of, and increase the living standards of, the family. Migrants who intend to invest are going to do so in such a way as to render their investment as sustainable as possible. Whether they choose direct investments, portfolio investment or financial intermediaries, the way to invest in savings depends more on the way opportunities are advertised than on a pre-determined strategy. This chapter analyses the main directions of government remittance policies, as well as the effects of a number of particular projects and incentives. The main finding is that good economic governance can do more to attract and turn migrants' savings into investment than policies based on incentives. Some policy preferences, such as tax and investment incentives, co-financing instruments, etc, play a role in attracting and channelling migrants' money, but their scope and time horizon is limited.

Laissez-faire or active remittance policies

All the policy proposals as regards the promotion of remittances as investments deal with the question of whether there should be a *laisser-faire* attitude toward remittances, whether attention should be focused on improving the general economic and political environment, and whether and in what form more direct intervention is needed. Given the increasing global competition between countries to attract investments, labour sending countries are increasingly obliged to design and implement policies that will make their countries attractive, not only for foreign investors, but for the savings of their emigrants as well. Although this chapter does not deal with the incentives used by labour receiving countries to keep the migrants' earnings, the more favourable investment climate and highly developed financial intermediation offer good alternatives for migrant savings. These are the main advantages of the developed countries in the competition to attract investments. The conclusion is reached later in the chapter that the main weakness of the remittance governance policies of developing countries, apart from the economic policy shortcomings, is the limited involvement of the private sector and financial institutions.

Labour sending countries need migrants' savings to be invested in the economy, not only because of the global competition for investment, but also because this will create a long-lasting link between emigrants and their home country, and be accompanied by the skills and knowledge gained in a more developed market environment. Studies indicate that the flow of migrants' remittance is less sensitive to global market fluctuations than other forms of financing. Thus, governments may need remittances to counteract the volatility of foreign direct investment (FDI) flows, in securing funds for development. Remittances have not received the sustained attention required by governments in the countries of origin, neither by the international financial institutions nor by the private sector. Most of the sending countries opt for a very limited or no particular policy as regards remittances. The *laissez-faire* approach is not wrong, if the overall economic

policy is correct and allows migrants and their families to plan how to use the remittances.

Experience shows that governments who have no remittance policies or have put in place unsuccessful policies, may lose both public money and the money of migrants, and their confidence in both cases. What are the policy options and objectives for remittance management? Active remittance policy is often thought to mean incentives for migrants, mainly in the form of tax and monetary concessions. However, this is not necessarily the case. Experience has not confirmed that government policies to promote migrants investments are effective. What is certain is that a relevant policy could influence the flow of remittances. Governments could help to reduce the costs of transfers and thus increase the benefits for migrants, their families and the economy. This is why it is the duty of government to restrict illegal channels and encourage competition between the institutions dealing with money transfers. In order to increase the development impact of remittances, it is first of all necessary to promote official channels of transfer. The impact on development of informal remittances that never access the national banking or investment sector is often significantly lower.

Investment *versus* consumption remittances

The literature indicates a fairly strong consensus on the use of remittances. Regardless of the country, for the most part, remittances are used for daily expenses such as food, clothing and healthcare, and they make up a significant portion of the income of migrants' households. Funds also are spent on building or improving housing, buying land and durable consumer goods. Many researchers criticise this pattern of the consumption of remittances. Such an approach obviously ignores the private nature of migrant remittances. Furthermore, higher consumption increases the demand for goods and further investments. Migrants decide whether remittances will be used for consumption or investment, on the grounds of a strategy for improving household living standards. Care for the family dominates migrant's decisions. Given the circumstances in most countries of origin, the choice to invest or spend savings is made in a relatively unfavorable investment climate, with limited opportunities to start small-scale businesses.

Only a small percentage of remittances is spent on what is termed productive investment (*e.g.* income and employment-generating activities such as buying land or tools, starting a business, and other activities with multiplier effects). Although there are differences between countries as to the proportion of the remittances used for investments, in most cases, this is a minor part of the overall inflow.[2] There are many reasons for this, depending on the country, but in most cases, the main obstacles for migrants to invest are the limited investment opportunities and the fear of losing savings through inflation or political instability. Migrants' savings represent an enormous potential for investment in the countries of origin, but so far this potential has not been sufficiently exploited. In developing relevant policies for remittance investment, it should be taken into consideration that, although the total remittance flow is large, it is

2. In the Dominican Republic and El Salvador, for instance, researchers have found that remittances were spent first on basic household expenses, with the remainder used for improving the standard of living through better housing, education, additional consumption and loan repayment (Georges, 1990; Pessar and Grasmuck, 1991; Siri and Delgado, 1995; Boly, 1996). Remittances also cover consumption in Mexico, as 76% of Mexican migrants surveyed spent remittances (migradollars) on consumption, 14% spent some on housing, and 10% said they spent some "productively" (Durand *et al.*, 1996).

comprised of a many relatively small, fragmented sums, owned by a large number of people. In addition, a migrant is not an investor or an entrepreneur by profession. The motivation, when deciding to invest, is rather different from the conventional investors' motivations**.**

Factors that shape the decisions of migrants to invest

Investment decisions are driven by a complex of factors that involve political, economic, social and enterprise development in the receiving country. In the last decade, governments and international organisations were successful in promoting the philosophy of foreign investment, which is welcomed in almost all countries. As increasing numbers of countries have put similar policies into place, they are now becoming a minimum requirement, and no longer a significant point of difference. Host countries are gradually being evaluated by potential investors on a broader base of policy considerations. Countries are striving to promote themselves by highlighting good macro-economic policies, such as: sound monetary policies that secure price stability and affect the costs of capital, pro-investment fiscal policies, and liberal exchange rate policies. The main determinants of foreign direct investments (FDI) are challenged by globalisation, terrorism, increasing competition and the ageing of populations in the developed countries. Traditional determinants of FDI, driven by the need to access markets, and natural and other resources such as low-cost labour, are still important to attract foreign direct investment, especially on a large scale. Countries are all the more competitive if their domestic markets are larger in size and growth, with geographic proximity and access to key potential markets. The factors that determine migrants' decisions to invest are similar, since they expect to have a secure investment with a high degree of return, but it seems that they are less demanding when investing than foreign investors, and particularly the large ones (Table 18.1). This may facilitate governments in designing policies that encourage migrants to invest. They live in an era of competition between countries to attract not only foreign investments but the migrant's savings as well.

Natural resources have declined in relative importance as determinants of foreign direct investment, but still remain the key for numerous enterprises and in many countries. They are also less important as a factor in shaping the decision of migrants to invest their savings in the home country. Effective national policies aimed at directing migrant remittances to investment in the home economy require a thorough understanding of the determinants of migrants' investment decisions, including their long-term strategies. The difference between the factors that determine migrants' and foreign investors' decisions to invest is that, as opposed to foreign investors who base their decisions mainly on rational criteria of cost-benefit-calculations, migrants usually preserve their emotional links to their home country. Therefore, their decision is not only dependent on objective criteria, but also on subjective factors such as prestige and the wish to contribute to the development of their home country. Therefore, it is a challenge for policy makers to develop investment opportunities that succeed in attracting migrants' savings.

Table 18.1. Factors in decisions to invest in a migrant's home country

Factors	Foreign investors	Migrant investors
Overall Policy Framework		
	+++	+
• Economic and political stability	+++	0
• Rules regarding free entry and operation of foreign companies	++	0
• Bi and multilateral agreements on foreign direct investment (FDI)	+++	0
• Privatisation policy	+++	+
• Rules for free repatriation of profit	+++	+++
• Administrative efficiency: time taken to obtain the necessary approvals and licenses	+++	+++
	+++	0
• Corruption perception and anti-corruption policies	++	+
• Availability of regulations that clearly define and allow exit for investors		
• Reliable public procurement rules		
Business facilitation	+++	+++
• Administrative procedures	++	+++
• Investment promotion (*e.g.* facilitation services)	+	++
• Investment incentives		
Economic determinants		
1. Relating to resource investment	+++	+
• Raw materials	+++	+++
• Complementary factors of production (labour)	+++	++
• Physical infrastructure		
2. Relating to market investment	+++	+
• Market size	+++	+++
• Market growth	++	+
• Regional integration		
3. Relating to efficiency investment	+++	+++
• Productivity: adjusted labour costs	+++	+++
• Sufficiently skilled labour and low cost labour	+++	+++
• Business-related services	++	+
• Trade policy		
Other Considerations	0	+++
• Keeping family, community relations	0	+++
• Prestige	0	+++
• Improving family living standards		

Note: 0-+++ indicates the degree of importance.

The major concern for investors is the investment climate in the receiving country. Many researchers[3] have confirmed that the tendency to remit is, to a significant extent, a reflection of the macroeconomic policy regimes of labour-sending countries. Therefore the best solution to the problem of increasing migrants' investments would be to implement wide-ranging policy reforms aimed at making the financial environment attractive. Remittances, like investments, are often sent to countries with sound economic policies. Improvements in policies and the relaxation of foreign exchange controls

3. Puri, S. and T. Ritzema (1999), *Migrant Worker Remittances, Micro-finance and the Informal Economy: Prospects and Issues,* Enterprise and Cooperative Development Department/Social Finance Unit, ILO.

encourage the use of remittances for investment. As one research team concluded, "... the way for policy makers to encourage productive investment is ... to pursue macroeconomic policies that yield a stable and propitious investment climate and to make expenditures on the infrastructure of specific communities which makes investment an attractive, profitable proposition" (Durand *et al*., 1996). Successful investment governance is based on good macroeconomic policies and appropriate monetary, exchange rate and tax policies (such as currency convertibility and no exchange controls). Improvements in the countries' financial and regulatory systems promote political and economic stability, limit risks, and increase the returns on investment. Investment in basic public works and infrastructures, such as roads and communications systems, also would be useful. There should also be a focus on small business development and the provision of funding, credit and technical assistance.

Good economic governance is the most efficient tool to attract migrants' remittances through official channels. Three indicators, the higher financial intermediation ratio (M2/GDP), the smaller black market share and the less restrictive exchange and trade policies largely explain why Korea, Sri Lanka, Bangladesh and Thailand have below average remittance tendency ratios. The foreign exchange regime is a very important component of the investment climate. Migrant remittances could be attracted as investment if the foreign exchange regime is favourable. There should be no restrictions on the transfer or conversion of the local currency. Similarly, there should be no restrictions, limitations or delays involved in converting or transferring funds associated with investment (including remittances of investment capital, earnings, loan repayments, or lease payments) into hard currencies at market rates. These policies should be long-standing and not susceptible to change in any way. Such important considerations for foreign investors as free repatriation of profits, bilateral agreements for FDI, the free entry and exit regime for foreign investment, and the size of the country, have no impact on migrants' decisions to invest. The main factors are related to the concrete opportunities that a country offers to small and medium enterprise sectors.

Migrants' investments do not fall into the conventional forms of investments: markets, resources or efficiency seeking investment.[4] The selection of the destination for the investment by the migrant is pre-determined mainly for safe and reasonable return on savings as a powerful instrument for survival and the prosperity of the family. This is a long-term strategy aiming to achieve rational and emotional benefits. While studying migrants' motivation and abilities to invest, the following limitations are identified:

- Relatively small size of investments: this requires specific policy instruments to consolidate migrants' savings into larger sums and/or to design measures appropriate for the promotion of smaller investments.
- Lack of a good knowledge of sectors and the labour market; limited contacts with the enterprise sector. Any policy to encourage the investment of migrants' savings should focus on market consulting, provision of market information as well as creating relations with local businesses.

4. Nunnenkamp, P. (2002), *"Foreign Direct Investment in Developing Countries: What Economists (Don't) Know and What Policymakers Should (Not) Do!"*, Monographs on Investment and Competition Policy Centre for International Trade, Economics and Environment (CUTS), Jaipur.

- Choice of destination of the investment: made not on the basis of the competitive advantages of the country and the region, but rather on personal and family ties. This makes such investments riskier than those based on a rational selection process. The higher risk factor of those investments very often leads to failure.

Policy objectives and forms

As competition intensifies between countries to attract investments, governments are moving ahead with increasing efforts to be pro-active as promoters of investments into their countries. Governments have to expand the number of policies that investors view as constituting a good investment climate, to take into consideration the greater demands on the effectiveness of investment policies, to offer new policy targets that cut across traditional policies such as those affecting the labour skills and technological innovation. Although the factors that bring foreign investment and remittance based investments are similar, the focus of the policies should be rather different in the case of migrants' investments, in order to take into consideration the specific nature of this financial flow and the motivation of migrants. It seems that migrants' investments are less demanding as far as the general legal and institutional framework is concerned, but more personalised policies are demanded to convince migrants to invest their savings.

The general objectives of policies to turn migrant remittances into investment may be:

- Use of remittances to promote development and a smooth transition towards economic development.
- Accommodation of remittances in the plans of the country to increase the potential of the economy to compete in international markets.
- Enhancement of capacity of remittances to generate growth.
- Stabilisation of their fluctuating effects over time.
- Attraction of migrants' skills and knowledge for the economic development of their country.
- A narrowing of the gap between migrant families' preferences in spending remittances, and government objectives for the use of remittances.

In designing such policies, the goals to be set must be more realistic. In the context of overall economic policy the remittances policy may be a part of the investment promotion policy. Experience suggests that countries such as Malta and Estonia, that still receive substantial remittances, have offered a broad range of investment promotions for migrants as part of their FDI policy. In other countries, this policy is constituted in the framework of the SMEs development policy, while a few countries have opted for a special remittance policy and strategy (these are the countries with the largest emigration flows).. Policy instruments are derived from the experience of both foreign investment promotion instruments and techniques to encourage entrepreneurship and SMEs.

Governments in labour-exporting countries have generally been more interested and more successful in developing policies to attract remittances than in influencing the ways in which they are used. They may use a variety of measures to promote direct investment and portfolio investment of migrants. It has been suggested that remittances would be safer and used more productively if they entered the banking system before being invested. Giving preference to indirect investments depends on the level of the

development of banking and financial intermediation, public trust in financial sector institutions and the existence of prudent supervision.

Remittance governance basically takes the following forms:

A. Business procedures, such as: business and investment counselling and training; information on investment opportunities; promotional seminars; special guides for migrants intending to invest; creation of special public institutions that provide services for migrant-investors; and activities that create linkages with local businesses and entrepreneurs. These measures benefit from easier communication with the migrant.

B. Entrepreneurship programmes that rely on direct support to migrants who wish to start their own business, including: preparation of business plans and feasibility studies; direct tax and no-tax concessions; financial support and co-financing initiatives; facilities to allow migrants to import machinery and equipment at concession rates of duty, micro finance schemes.

C. Promotion of investments in the financial sector and financial intermediaries. These may take the form of a broad range of financial products and equity investment in the financial sector such as: securitisation; creation of remittance development banks; participation in the securities market; creation of equity funds, etc.

D. Investments and donations in community projects.

Most of the policies and incentives aiming to turn migrants' savings into investments have short rather than long-term perspectives. The ultimate goal of such policies should be sustainable investments and migrants' enterprises. The author fully rejects the policy of the mandatory means used to channel remittances into investment. Such an approach ignores the private nature of remittances and the freedom of choice. One of the main weaknesses of remittance policy incentives is that they are basically understood and implemented as solely government policy. This leads not only to an overburden on public spending, but also may contribute to the creation of investments which are not welcomed by the business environment. Good remittance governance is that which is based on the initiatives and involvement of local businesses, local credit and financial institutions, local communities and government.

Policy instruments may be addressed to the individual migrant, to migrants' families or to migrant diasporas. Some countries give priority to collective forms of investments. This is feasible where strong migrant communities are established. Good communications with the migrants is essential to a properly designed remittance policy. Some countries offer migrants favourable conditions to return to their homeland, to visit their relatives and to look for investment opportunities. In many cases (for example India and Vietnam), the local chambers of commerce are involved as a facilitators of migrants' investments in their country of origin, while migrants themselves may facilite contacts with foreign investors. Experience suggests that there is no single instrument powerful enough to turn a substantial proportion of remittances into investments: it is always a complex of instruments that may achieve higher investment impact. However it is much better to use the policy measures that have achieved a better cost-benefit ratio.

Policy instruments

Investments in public infrastructure

Among the policy instruments designed to channel migrant remittances to investment are the pilot projects that strengthen the ties between migrants working abroad and their home communities. These are focused on infrastructure and community development. Such projects mitigate the major risks involved in the migrant investments, *i.e.* their fragmented and small size, and the lack of investment knowledge and skills of migrants. The consolidation of migrant savings as well as the professional management of such project funds co-financed by reliable institutions makes such a policy instrument relatively popular.

Box 18.1. Examples of community programmes

IOM Community funds project in Guatemala

The objective of this project is to offer alternatives for rural communities in Guatemala which tend to generate irregular migration towards the United States. The project seeks to make the most efficient use of the close relationship that already exists between villagers and migrants, and aims at creating social investment funds, while offering an effective transfer, investment and marketing system.

The project consists of: 1) A banking service which is a financial bridge between the United States and Guatemala, 2) A communications system between the villagers and the migrants will be installed, based on new telecommunications and internet technology, and 3) A market for joint purchases and sales from the community to national and international markets will be developed that allows villagers to move from individual trading and marketing strategies to more effective collective approaches.

IOM Community funds project in Colombia

The objective of this project, still in the developmental stage, is to create a social investment fund for productive small-scale projects for vulnerable populations, especially the internally displaced. Two scenarios are under consideration. In the first, the IOM would become one of the main operators of remittances to Colombia at very low cost. The second scenario envisages the establishment of strategic alliances with ongoing operators and regional financial institutions.

IOM: International Organisation for Migration.

Governments frequently develop schemes to encourage migrants to invest in small community infrastructure projects, mainly in the cases where strong migrant associations are active in promoting such ideas. For example, associations in the United States organise migrants from some Latin American countries such as El Salvador, Guatemala, Honduras, Mexico and the Dominican Republic, and regularly send donations to finance investments in community projects and local development in the home countries. The average size of these donations varies widely: from USD 10 000 per year in Guatemala to USD 5-25 000 per year in the case of Mexican migrants (Ellerman, 2003). These funds are often matched by co-financing provided by the migrant's home country. This is the case of the famous Mexican "3 for 1" programme. In framework of this programme, the Mexican federal government, the state and the municipal government complement each dollar of remittances invested by a migrant's mechanism reassures the migrants that their money is used for sustainable investments. Although broadly advertised and presented, this programme has had a very marginal impact. The total investment made by migrants to these projects amounts to around USD 4.5 million (Micklewright and Wright, 2003). The active policy to promote the links with the community of migrants involving their

savings in community projects is a sophisticated tool to reach these objectives. The main disadvantages of such projects are that they are expensive and that they are based on emotional rather than rational motivations, like prestige, community links and charity. This is why this policy instrument has a very limited potential to accumulate migrants' savings.

Investment and business facilitation

Business and investment facilitation is typically dealt with by investment promotion agencies and by organisations which promote SMEs. They may be assigned the task of servicing migrants who want to invest in the following:

- Counselling, speeding up the approval process and assistance in obtaining permits. These services are better provided by "one-stop shops".
- After-investment services related to day-to-day operational investments may be offered.

Since migrants are a group of potential investors apart, they may need specific information and counselling. This is why many countries have established investment and business promotion agencies for migrants. Assisting in their investment plans should be carried out in the broader context of investment promotion, and not create grounds for discrimination by other local and foreign investors. Return migrants and remitters need attention and without this, far less of them will invest. Investment counselling may be provided, not only by both the governmenta agencies and non-governmental organisations (NGO) also. The experience of the overseas Pakistanis foundation (OPF), a non-profit organisation created for the welfare and advancement of Pakistani immigrants, suggests that there is a high demand for such services: investment advisory services, assistance in obtaining services from relevant government departments, etc. The overseas Pakistanis foundation publishes as a special *Guide to Investment* for return migrants, providing information on the credit facilities, savings schemes and business advisory services available.

Similarly, in the Philippines, the overseas employment administration, together with the International Labor Organisation (ILO) began to develop a programme to establish training centres in regions of high migration. The aim of such institutions is to provide business consultancies, information services, training in small-scale business management and financial support, to return migrants and their families (ILO/UNDP, 1988). Counselling services to return migrants are provided in Sri Lanka, by the return migration branch. For various reasons, this programme never became fully operational. Many governments offer specialised programmes for remitters and return migrants to encourage them to develop businesses. The government of Korea, for example, launched an experimental training programme for return migrants in early 1986. This aimed at retraining return migrants in new skills, so that they can move to other industries or establish their own business. By mid-1986, some 4 000 workers were participating in the scheme (Hyun, 1989). A good example of such programmes is the involvement of local businesses and banks. For example, in Thailand, the Bangkok Bank offers an advisory service on investment opportunities to its migrant-worker customers. The workers who seek advice are also eligible to obtain supplementary loans from the banks if they have a good savings record. Such programmes need wide advertising in order to reach as many migrants as possible.

Business facilitation policy instruments aim to overcome some of the main obstacles confronting migrants when deciding to invest: the lack of information about investment conditions, business opportunities, and the legal and institutional framework. Information services may overcome the problem of the distance that separates the migrants from the home country when they decide to invest, and continue to work abroad. As many studies indicate, migrants expect government attention in order to invest in their home country. To address this concern, government business facilitation programmes should have a special focus on the promotion of migrant investments. Some countries develop special guides for migrants-investors; others organise promotional tours around migrant communities abroad. Such initiatives may have a particular purpose, *i.e.* to generate particular funds for a project, to attract remittances to help country overcoming current financial difficulties.[5] All these initiatives take advantage of the emotional links of migrants with their countries and could be beneficial for both sides. Migrants need to be convinced to invest in the country they left. Very often governments address the migrants with open and clear policy messages. For example, the Finance Minister of India urged the Indian diaspora to turn their remittances into investments: "We welcome remittances but we want much of that to transfer from savings to investments, whether you invest in industry, the services sector or in the social sector". It can hardly be believed that such messages are enough to turn remittances into investment but at least this is a first step.

Linking remittances with the enterprise development

Many governments design and implement a wide range of policies that encourage migrants to start up their own businesses. Such policies take advantage of instruments of SMEs promotion rather that foreign investment promotion techniques. Their success is difficult to assess, since in some countries their scope is very limited. In some countries the SMEs sector depends heavily on remittances, although there were no specific programmes or direct government influence in this. In Dominican Republic, El Salvador, and Mexico, strong connections exist between small business owners and former migrants. Some have acquired skills in New York, have clients in New York, or used remittances to start or maintain their businesses.[6] Lopez and Seligson (1990) studied the use by small businesses of remittances and found that as many as one-third of them depended on remittances to get started, and as many as two-third required remittances to maintain their business. The situation is similar in Mexico, where *migradollars* have increased the possibilities of business formation and productive investment by households and communities. One study found that 63% of businesses surveyed were owned by present or former migrants, 61% of which were started with money earned in the United States and 44% of which were sustained that way (Cornelius, 1990).

5. For example, the Philippine government addressed the overseas migrant communities to assist in alleviating the effects of the impending fiscal crisis through the increased inflow of funds. The campaign had the following targets: 1) encourage the Fil-Am community to remit an additional 20% of current remittance levels. 2) invite the Fil-Am to invest at least USD 2 000 in blue-chip Philippine stocks and/or government securities.

6. Cornelius (1990), Lopez and Seligson (1990), Portes and Guarnizo (1990). In the sample studied, 90.3% of the business owners were returnees or lived abroad, 89.4% had started their businesses with money earned abroad, 42.5% still received remittances and 71.7% had former migrants as workers. Though the investments were irregular, the total investment from migrant savings in their sample was USD 1.2 million, 57% in cash, 37% in-kind. The mean value of each transfer was USD 5 400 and the median value was USD 3 000).

As studies showed, in some countries[7] like Pakistan, relatively little remittance income from family members working in the Middle East was channelled into business investments, despite government incentives offered to migrant households. The best predictors of business investment are the pre-existing level of business exposure/experience in the family and whether the family head was aware of business investment opportunities. Business start-up requires a certain level of resources, education, occupational skills, economic factors, and family labour (in addition to an appropriate economic and political environment). It seems rather common in all countries that the relatively small size of these businesses and their limited employment generation impact is more attributed to conditions in the migrant's country rather than problems with the businesses themselves. Further, while remittances contribute to economic development by providing capital and business development, they do so within the context of other influences and cannot be the sole basis for development (Massey and Parrado, 1998).

When starting up a business, migrants aim to achieve long-term benefits for their families, a stable return on investment and employment for the family members. The different schemes used by governments take this motivation into account and focus on direct and personal advice to migrants who intend to start businesses.[8] In recent years, international agencies operating in Asian and other labour exporting countries have launched programmes aimed at converting migrant savers into entrepreneurs. A major constraint is the limited reach of such schemes, which account for only a fraction of the total remittance inflow. The government of Sri Lanka was the first labour-exporting country in Asia to launch an entrepreneurship development programme for return migrants (Rodrigo and Jayatissa, 1989). This programme has been operational since 1982 and aims at guiding returning migrants in business creation. Experience clearly confirmed that the more highly qualified return migrants were more successful in participating in this programme than the unskilled. Second, the possibilities of guiding candidates into business are limited unless accompanied by measures to facilitate the access to capital. Third, the ability to identify and develop a project as well as managerial skills needed to run a business, cannot be imparted only through a programme of class instruction.

The outcome of the Sri Lankan scheme is not different from that of similar attempts elsewhere. In particular, in Turkey and the former Yugoslavia, schemes to encourage investment by migrants, through workers' companies and village development co-operatives have had mixed results, for similar reasons (Ebiri, 1985; Penninx, 1982). On the whole, then, the attempts of governments of labour-exporting countries to encourage migrants to start business have a mixed record. It has been confirmed by experience in many countries that overly bureaucratic plans to encourage remittance investment were not attractive to migrants (Diaz-Briquets and Perez Lopez, 1997). According to Russell, the general economic and political factors in the remittance-receiving country can be more influential than many of the special programmes created by governments, and that these "policy measures to capture and influence the uses of remittances have been considered relatively ineffective when viewed in relation to the total volume of remittances" (Russell, 1986).

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7. Sofranko, S.J. *et al.* (Sept. 1999*),* "Use of Overseas Migrants' Remittances to the Extended Family for Business Investment. A Research Note", *Journal of Rural Sociology*, Vol. 64(3), pp. 464-481, Subject Matter Community Development, International, Pakistan.

8. Judith van Doorn, *Migration, Remittances and Small Enterprise Development*, ILO.

Experience has proven that it is difficult to convert migrant workers with no prior business experience into dynamic entrepreneurs. Even if successful, such a policy has only a marginal impact on the overall flow of remittances. That is why governments, banks and financial institutions introduce financial intermediaries that capture remittances as deposits and channel them to existing small businesses, rather than transforming migrants directly into entrepreneurs. While such a policy well mitigates the risks, the ultimate prerequisite to implement such schemes is the reliability and viability of financial sector. The involvement of public and international financial institutions is the guarantee for the prudent management of migrants' money but the credibility of the government and of its policy is the decisive factor for any migrant's interest towards such savings accumulating institutions. Many international organisations strongly support the policy of promoting micro-finance institutions[9] from the prospective that it has an international dimension, it is of growing relevance in view of the increasing number of migrant workers and it contributes substantially to the national income of many poor countries. Moreover, the hope is that such institutions may attract even the migrants' savings that are not transferred through official channels. Creating micro finance intermediaries governments may manage such remittances safely and cost-efficiently.

Do the incentive programmes make a difference?

Many governments, recognising that remittances are a significant source of finance, attempted to use incentive programmes to attract these funds and encourage their investment in the home countries. Researchers also view remittances as a potential source of financing and encourage governments in promoting such policies. As already described promotional efforts of governments to attract remittances for investment may well go beyond narrowly-defined business facilitation and include fiscal and tax incentives. Most of the incentives are provided on a temporary basis. The assessment of the efficiency of such incentives varies from strong approval to strong criticism. This discussion is broadly similar to the one about the foreign investment incentives.

The investment incentives offered by the governments to migrants include:

- Short-term incentives: promoting return visits, tourism, return after retirement, supplements for small businesses (Bascom, 1990; Diaz-Briquets and Weintraub, 1990; Seligson and Lopez, 1990; Siri and Delgado, 1995). A few countries have implemented these types of incentives.

- Premiums on deposits. Sri Lanka, Bangladesh, Pakistan, India and Turkey all have foreign currency accounts that pay above-market interest rates and convert into local currencies at premium rates (Taylor *et al.*, 1996). India also shelters income from certain migrant investments as long as the migrants remain outside of India. Egypt and Turkey both have offered good exchange rates for certain migrant investments and Poland offers a good rate of exchange on social security checks.

- Promotion of the import of investment goods. This is a very particular policy instrument to promote the use of remittances for investment. The free import of investment goods by migrants encourages business start-up. For example, Pakistan has a non-repatriable investment scheme, under which overseas

9. Shivani Puri and Tineke Ritzema, *Migrant Worker Remittances, Micro-finance and the Informal Economy: Prospects and Issues*, ILO Working Paper No. 21.

Pakistanis (including those returning permanently) are allowed to import machinery and equipment at concessionary rates of duty to establish manufacturing enterprises. The rate of duty rebate varies, *i.e.* projects in relatively under-developed areas receive a higher rate of rebate. In India, migrant workers who return home for permanent settlement and wish to set up a new industrial unit or participate in the expansion of existing business units are given preferential access to capital goods and raw material imports. The impact of these schemes has not yet been assessed. However according to the available evidence, their impact so far has been rather insignificant (Nayyar, 1989; Kazi, 1989).

- Preparation of feasibility studies for migrants' investment projects. This incentive is provided to facilitate the choice of investment projects.
- Access to the free economic zones. In some countries migrants are eligible in free economic zones, export processing zones and other similar areas of countries where they enjoy complete duty exemptions on machinery and raw material imports, and some tax relief.
- Fiscal and tax incentives. Such policies are granted on the basis that as sociologists Massey and Basem wrote, "...migrants tend to save, remit, and invest productively when the incentive structure is such that this behavior is likely to be rewarded" (1992, p. 204).

Economists have long argued that the use of discretionary fiscal and financial subsidies to attract investment is ineffective. Such arguments may be re-stated in the case of investment incentives for migrants. Moreover, it should be kept in mind that no promotional efforts or incentives will help attract significant investment if economic and political fundamentals are not conducive to migrants and investors. Although it seems that possible tax concessions for migrants' investments may attract more remittances to the enterprise sector, the impact of such a policy may have a negative impact. In such cases smaller local investors and foreign investors may suffer discrimination. Moreover, this measures may be costly and weaken public finances. Unequal treatment of investors could harm the investment climate and jeopardise investments in the country. Some studies go far in opposing that government policy to offer investment concessions for migrants. "Furthermore, … aid policy should not be targeted at promoting productive and labour-saving investments by migrant families, since they are already wasting the capital that they own. Rather, policies targeted at helping non-migrant families could create enough incentive to encourage the former ones to be more efficient."[10]

Promoting migrants' investments in the financial sector

Governments and financial institutions provide migrants with some attractive investment opportunities in the financial sector. There are various mechanisms for leveraging remittances in the receiving countries: governments and local financial institutions can issue bonds for emigrants, who would earn an interest rate, creating a more attractive instrument for channelling remittances. Another possibility is for domestic banks to offer migrants foreign currency accounts that are free of exchange rate taxes and other regulations. There are examples of savings services for migrants and their families such as repatriable foreign currency accounts, foreign currency denominated

10. Azam, J.-P. and F. Gubert (2004), *Those in Kayes: the Impact of Remittances on their Recipients in Africa. Do Remittances Hinder Technical Efficiency in Agriculture?,* The European Development Research Network (EUDN).

(remittance) bonds; prize bonds; savings certificates. In many cases these services are characterised by a favourable interest rate policy, a premium exchange rate and limited restrictions on withdrawals. Such measures may help attracting migrant remittances in the banks and financial sectors in short time horizon but may have a negative impact on development of the financial sector in developing countries.

Migrants' remittances may be used reliably for future-flow securitisation along with other future-flow receivables such as oil exports or credit card receivables. For example, the Banco do Brazil has issued USD 300 million worth of bonds with future Yen remittances from Brazilian workers in Japan as collateral. These securities were rated significantly higher than Brazil's own bond issues. The asset securitisation already has been tried by some European investment banks which involves lending money to banks in developing countries (one example is Mexico) based on the expected inflow of funds from remittances. A related suggestion is to encourage banks that depend on the remittances for cash flow to invest some of the funds in the countries to which the money is transferred (Pastor and Rogers, 1985). The experience of the creation of specialised remittance banks did not enjoy the success expected. The aims of such banks were to link migration with development[11] with the principal objective of transforming migrants' savings into productive investment. The products offered by such banks vary from identification of appropriate areas for local investment, preparation of feasibility studies, evaluation of projects, and assistance in setting up enterprises to provision of credit and traditional banking services.

Recently, international financial institutions supported the idea of creating multilateral remittance banks with the aim of helping to identify potential investments. Migrants would deposit their remittances in the banks, which would transfer the requested percentage of remittances (directly or through investment dividends) to the migrants' families. The remainder of the funds would stay in the bank and be used as leverage for international and regional funds for development projects. The funds also could go into an investment fund for local projects or be used as additional financing for small business development, along with technical support. Although such proposal would address the problem of governments lacking the matching funding required to receive international aid for projects, this would take migrants' savings from away from the banking system in developing countries. Further, creating institutions without prudent supervision rules, as well as provision of some preferences, would have a rather negative impact on the competition in the banking system.

Sustainability of migrant investments

The sustainability of a migrant investment flow depends on migration trends as well as on the factors that turn them into investment. Broadly speaking, the life-cycle of the migration process at the country level is that for growing economies with rising per capita incomes, differentials across countries in the income per head will diminish, reducing the incentives for emigration. Thus the relative importance of remittances is likely to decline as a country develops further. While this is valid mainly for remittances from low-skilled migrants, for the highly skilled, well-educated individuals, migration flows at the high per capita income levels are likely to continue. In this case, it could be expected that

11. The Turkish DES□YAB bank ceased to exist following a merger with the Turkish Tourism Bank. It is now the Turkish Development Bank, which does not have the same purpose as the former State Bank for Industry and Migrant Investment.

remittances may continue and their role in investment may substantially change. It is more relevant to expect that highly skilled migrants may invest in more sophisticated sectors and forms like in financial sector and knowledge based small and medium-sized enterprises.

Many of the policy instruments used by the governments to attract migrant investments are of a temporary nature and the results seem to be the creation of investments with short-term prospectives. One of the lessons learned from the long experience of remittance governance is that their sustainable development impact could be proved if both the remittances and government efforts are invested in viable and sustainable projects and enterprises.

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CHAPTER 19.

MOTIVATING MIGRANTS FOR SOCIAL AND ECONOMIC DEVELOPMENT IN MALI AND SENEGAL

by

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Introduction

Most West Africans who migrate to the OECD area are economic immigrants, from countries where development is such that the majority of the population cannot live decently and where key workers and technicians, in particular, are largely sufficient in number to ensure development but unable to find established jobs in line with their qualifications.

After encouraging immigration at a time when labour demand was high, driven by economic growth, but the labour market was insufficiently responsive,[1] OECD member countries are gradually returning to a situation in which fewer and fewer immigrant workers are needed to meet labour demand, with the notable exception of specific industrial and service sectors such as information and communication technology (ITC) This has given rise to policies that encourage the return home of foreign nationals whose profiles no longer match the sectors still offering numerous job vacancies. These policies provide incentives and assistance in the form of grants for migrants to inject into the home economy upon their return. Then there are the migrants who decide of their own accord to return to the home country (not necessarily because they have been unsuccessful), and this means the return of nationals with the potential for investment and enterprise creation.

Migration within the sub-region of West Africa (the most common form) may also be followed by returns to the home country, which also brings back would-be investors and entrepreneurs.

Have returning migrants genuinely fostered home-country development? Can host countries include support for assisted returns under the heading of official development assistance? Have the mechanisms introduced to date been effective? Can they be called

1. "Migration is inextricably linked with the labour market" acknowledged the Council of Europe in *Towards a Migration Management Strategy*, Strasbourg, July 2003.

"co-development" (co-operation for development) schemes inasmuch as they involve migrants in projects based in the South?

The sending countries are engaged in a more or less efficient development process, in which remittances by migrant nationals abroad play a vital role, accounting for a considerable share of the gross national product (GNP). Understandably, then, these countries may not look favourably on the return of their expatriates, and they are not prepared to back the migrant repatriation policies introduced in the North, for instance by promoting reintegration measures for returnees. On the other hand, they are all prepared to develop incentives for migrants to come and demonstrate their know-how and deposit their savings in the home country (provided this does not jeopardise their stay abroad, be it legal or otherwise).

As development remains just as crucial an issue for the home countries as it is for the countries and international or multilateral organisations seeking to promote it, the challenge lies in encouraging migrants to become engaged in and contribute to home-country development. In the sending countries, this kind of mechanism should restrict further emigration. In the North, it should help migrants to become part of civil society, particularly through society's efforts to foster development in the South through decentralised co-operation and "co-development".

This chapter will draw on the experience of migrants returning to Mali and Senegal and the implications for development there, with a view to learning lessons and defining principles and mechanisms that will serve to revamp the approach used to actually engage migrants in that development.

It is worth noting that there are a number of migrants with substantial financial capacity and sufficiently few family or clan commitments to envisage investing in businesses outside their region or country of origin. Like anyone with floating capital, they prioritise institutional and political stability, and opportunities for repatriating their profits. These migrants can be said to be benefiting from globalisation and investment opportunities, whether they come from Africa or elsewhere.

Evidence

General observations[2]

Migration is not a new phenomenon in West Africa. Mobility has always been a major feature of life in the sub-region. In 1993, national migration surveys revealed the leading migration pathways in eight of the countries there (Burkina Faso, Côte d'Ivoire, Guinea, Mali, Mauritania, Niger, Nigeria and Senegal) (REMUAO, 1998).[3] Burkina Faso is shown to be the main sending country and Côte d'Ivoire the main receiving country. In the wake of the crisis in Côte d'Ivoire, inter-regional migration flows are expected to shift to other more stable countries such as Senegal. Much of the movement is cross-border migration into neighbouring countries. In West Africa, migration flows fall into two categories, namely rural-to-urban and international. Some international flows are intra-regional, while others are extra-regional or inter-continental. There are a host of inter-linking factors determining all of them. Choice of destination is based on economic,

2. From *Gestion des migrations et politiques de développement : optimiser les bénéfices de la migration* internationale en Afrique de l'Ouest (October 2003), by Ms Savina Ammassari.

3. REMUAO (Western Africa Migration and Urbanization Network), *Migrations Internationales,* Bamako, 1998

demographic, social, political, cultural and environmental criteria, not to mention linguistic considerations and legal issues relating to the movement of persons. Migration pathways are very diverse. Some migrants proceed in stages. Others move directly from their village to a foreign capital. In Mali for instance, over 60% of migrants from rural areas leave to go abroad.

Since the 1970s, labour migrants have been moving to the North. They are males in search of work, but their decision to go North stems from policies to promote family reunification. Intercontinental migration flows have grown considerably more diverse. Since the 1980s, they have targeted mainly Europe and North America, in particular the United States and to a lesser extent Canada, but also the Middle East and Asia. Flows to Europe target France and the United Kingdom, where the immigrant population has stabilised, or Germany, Italy and Spain.

All of these migrants leave with the idea of returning home after "making their fortunes" abroad. While a number return earlier than planned because of employment (or other) failures or changed circumstances (*e.g.* natural disasters, war or harassment), most migrants wait until they have acquired experience, know-how or financial capacity, or until retirement age, before returning to their countries of origin.[4] In the meantime, the vast majority send remittances home to their families or villages or to have houses built for their eventual retirement. These remittances, sent through formal or informal channels, are a financial windfall that is particularly beneficial to countries with a large number of emigrants abroad and serious poverty at home.

The questions to be addressed are: 1) whether these financial flows contribute to home-country development[5] and 2) how these remittances can be used to create more wealth and jobs, thereby curbing further emigration.

Experience of migrants returning to Mali

Mali is one of the West African countries with high international migration and extensive immigrant communities in neighbouring countries (mainly Côte d'Ivoire), Europe (France, Germany) and the United-States. Data from the 1998 General Population and Housing Census (RGPH) put the number of international migrants returning home to Mali between 1993 and 1997 at almost 42 000 (over a five-year period, giving an average of 8 400 per year). Most of the international migrants returning to Mali come from neighbouring West African countries (*e.g.* 59% from Côte d'Ivoire, 12% from Mauritania, 7% from Burkina Faso, 3% from Niger and Senegal), then from the rest of Africa (5% in all) and elsewhere (5%, including 3% for France alone). Social and economic reintegration is a major concern when Mali's international migrants return. It consists largely in help with individual projects and, in some cases too, various forms of international co-operation, with projects that are particularly diverse in terms of their nature, scale and duration.

4. The general trend is towards returning to either the region of origin or an economic hub where the skills acquired abroad can be put to best use. When emigration has been a failure, migrants avoid returning to their region of origin.

5. According to the IMF, the overall amount remitted by migrants to developing countries (via formal channels) was an estimated USD 105 billion in 1999.

A recent study[6] carried out by the Joint IOM/IRD Unit, based in Dakar (Senegal) at the Regional Office for Western and Central Africa of the International Organization for Migration (IOM), in partnership with West Africa's national institutions in charge of migration issues, shows the starkly contrasting impacts that this phenomenon can have on development in the countries of origin. The study (the only one of its kind) focuses on reintegration projects and programmes initiated from 1996 to 2000 by migrants returning to Mali[7] under the implementation and follow-up arrangements appended to the Dakar Declaration closing the West African Regional Conference on "The Participation of Migrants in the Development of their Country of Origin", held in Dakar from 9 to 13 October 2000. The aims of the study were, *inter alia*, to identify needs regarding the technical and/or financial upgrading of poorly performing projects and propose guidelines to encourage investment initiatives, support the economic reintegration of returning migrants, and enhance future projects and programmes in terms of their impact on home-country development and individual perceptions of migration. Figure 19.1 gives a profile of migration flows from 1993 to 1997.

Type and scale of migrant projects

Sectors and investment chosen by returning migrants

With regard to Mali as a whole, the findings of the 1998 General Population and Housing Census (RGPH) show that returning Malian migrants focus on the agricultural sector: 84% of them opt for farming. Commerce, which requires more initial investment, ranks second with only 7%, well behind agriculture. Crafts (6%) and other services (3%) are low on the national list, while industry is all but absent (0.2%).

With regard to investment, the heavy focus on farming (first sector for investment) is basically due to the large number of Malian migrants returning from neighbouring or adjoining countries (Côte d'Ivoire, Mauritania, Niger) where the majority worked on rural plantations.

Investment in non-farm sectors (second for investment) focuses on commerce with the opening of retail stores and shops, public transport, crafts, catering and services (*e.g.* telephone centres, cyber-cafes and millet mills). Commercial activities predominate in various forms, including warehouses and stores selling grain, cement, building materials, electronic goods and so on. Those who were shopkeepers before emigrating and/or in the host country (particularly Côte d'Ivoire and other parts of the sub-region) take up the same business again on their return to Mali.

In Bamako, a highly urbanised business hub, the RGPH findings for 1998 reveal that services remain the prime sector attracting returning immigrants (86%: 41% in commerce and 45% in other services). Crafts and agriculture attract only 8% and 5%, respectively, of returning migrants.

In the Kayes area (with its high out-migration to Europe and emphasis on farming), migrants return mainly to agriculture (86%), regardless of the type of work they did in the host country. Commerce (6%), other services (6%) and crafts (3%) come very low on the

6. *Diagnostic des initiatives de réinsertion économique des migrants de retour dans leur pays d'origine : étude de cas au Mali, Rapport final* (French only) (Assessment of initiatives to foster the economic reintegration of migrants returning to their country of origin. A case study of Mali. Final report), 88 pages, Dakar, June 2003.

7. Financed by the Swiss government.

list. Transport is in third place, with the emphasis on passenger and/or goods transport in or between Mali's towns.

Project lifespans

By and large the crafts sector does not hold much attraction for returning investors, owing to the need for expensive tools and materials, quite apart from the craftsmanship required (in areas such as mechanics, carpentry, welding, or sheet-metalwork). The same applies to other businesses that require extensive skills and start-up funding (*e.g.* catering or industrial firms).

For returning Malian migrants investing in their social and economic reintegration, the cost of maintaining their families is a major source of problems when setting up commercial ventures (retail stores, craft workshops or street food stands). An entrepreneur with a project costing CFAF 3 million, for example, cannot keep 10 to 15 family members while at the same time facing keen competition in the local market.

Other reasons for failure that limit the length and success of migrant ventures relate to project-management problems, poor knowledge of the investment sector and inadequate start-up funding (*e.g.* no basic management skills, insufficient capital investment, inability to compete, dishonesty on the part of customers, social and family pressure, lack of supervision and control).

Problems encountered by migrants with home country projects

Some of the problems encountered by migrants wishing to transfer their assets back to the home country to support their families, take part in community projects or invest in productive ventures are listed in Table 19.1, covering Mali, Senegal, the Comoros, Vietnam and Morocco (from the report *Migration et Phénomènes Migratoires* published by the French Development Agency (AFD).[8]

Impact of projects on home-country development

Investment by returning migrants can be substantial. In Mali, 54% of migrants have invested over CFAF 100 000, 22% up to CFAF 900 000 and 32% over CFAF 1 million. The projects per se (irrespective of funding source) exceed CFAF 2 million in 60% of cases. Forty-one per cent of projects range from CFAF 2 to 5 million, and 19% exceed CFAF 5 million (with some as high as CFAF 30 million).

All of this investment has created jobs, wealth and income in migrants' communities of origin. Investment by Malians returning from abroad falls into the following categories:

- Family investment to meet the direct needs of the household.
- Collective social investment to provide basic community infrastructure in the area of origin.
- Economic investment in a productive personal project.

8. *Migration et Phénomènes Migratoires* (Migration and Migratory Phenomena) published by the AFD, Paris, November 2003.

The remittances sent back to the home country for family use "are a form of protection or insurance against the uncertainty and insecurity weighing on the population in these areas"[9] and are used to cover the cost of food (61%), home construction (12%), clothing (10%), healthcare and education (9%) and family events (4%). Migrant remittances go first and foremost to families and home communities, substantially boosting the income of both.[10] Real estate, accounting for 12% of all remittances to families, ranks second in terms of the mobilisation and investment of Malian migrant remittances. The term covers buildings for family use or for commercial or rental purposes.

The impact that projects have on home-country development is also visible at the local community level, in particular new social infrastructure (schools, healthcare centres, post offices, mosques) and/or basic facilities provided by Malian migrants, village authorities, the state (as in the case of healthcare and teaching staff) or a combination of all three. Initiatives by Malian migrants benefiting their communities of origin account for 22% of their remittances every year. Investment also focuses on building and maintaining the water supply (wells, boreholes, water points, water towers in villages). Although such initiatives are usually the responsibility of government, they are increasingly being undertaken, fully or partially, by migrants themselves. Projects such as new grain banks, shops and pharmacies for the community, post offices, basic supplies, village electrification, rural telephones and road infrastructure are gradually helping to improve living standards for the people and communities in migrants' home areas. This kind of investment is generating denser land-use and promoting local development.

However, one feature of this concentrated investment by Malian migrants in family needs and community projects is that it detracts from economic projects with the potential to create wealth and sustainable employment. Economic projects are the least common form of investment, accounting for only 14% of the remittances sent back to Mali by its migrants. They focus mainly on opening stores and purchasing passenger transport vehicles, farm equipment or industrial plant

Impact of projects on individual perceptions of migration: staying or emigrating again

Individual perceptions of migration, particular in respect of decisions to leave (new migrants), to stay or to leave again (returning migrants), depend to a great extent on "ideology" and the social and cultural "images" that profoundly shape a person's choices, calling and motives regarding mobility. In the Kayes area, migration is a fact of life. Emigration is in itself a point of reference, an event for which families are ready to make the most unexpected sacrifices, including financial hardship. Returning to the home community, or at least demonstrating one's ties and gratitude by helping in all kinds of ways to improve the economic and social standards of living of one's relatives and friends back in the village are two of the main demands made by families and local communities.

9. *Migration et Phénomènes Migratoires* (Migration and Migratory Phenomena) published by the AFD, Paris, November 2003.

10. To such an extent that, in some families, people have lost the habit of working. Some will argue that remittances offset the labour lost to emigration. Others highlight the emergence of real cases of "remittance dependency" among some families.

The impact that projects have on individual perceptions of migration, in particular decisions whether or not to emigrate again, might therefore also be contingent on factors such as the would-be migrant's frame of mind, the success of returning migrants' social and economic reintegration, and the prospect of seeing other family members taking their place in migration networks.

Even when their reintegration projects have been a success, returning migrants retain their close links with the host country and their network of relations abroad, in this case information on niche markets, opportunities in individual sectors and for individual products, and strategies to obtain goods or commodities (for instance, returning migrants show a clear preference for host-country goods, a fact worth bearing in mind when it comes to commercial competition, particularly between European countries).

When their initial projects for reintegration in the home country fail, returning migrants try to develop replacement activities in other sectors with their remaining capital. As has been seen, emigrating again is one option.

Experience of migrants returning to Senegal

There are no studies on Senegal that are comparable with the IOM/IRD study on migrant returns to Mali and contain valuable information on the impact of projects on development. The only data available are from the 1993 Survey on Migration and Urbanization in Senegal (EMUS),[11] which provides some interesting information on migration flows in Senegal.

Incentive schemes for returning migrants

OECD member countries have sought to introduce incentives for migrants to leave and return to their countries of origin when they are no longer vital to the economy. Only France has actually gone ahead and introduced a scheme, namely the *Programme Développement Local Migration* (PDLM) (migration and local development). The PDLM was basically devised to back up the repatriation orders or IQFs (*Invitations à Quitter le Territoire Français*) issued to Malians and Senegalese immigrants (the two groups of nationals most commonly concerned). Consequently, it is also seen as a support scheme to offset the repercussions of authoritarian decisions by the French government.

The programme has two official goals, one being to ensure the reintegration of migrants returning from France by providing financial assistance for economic micro-projects in their home countries, while the other is to foster the emergence of sectors with local development potential in their regions of origin. Initially the aim was to dissuade would-be emigrants from coming to France and encourage those already in the country to return home. This goal is obviously not shared by the sending countries, where emigration is viewed as a real windfall because of the regular remittances it generates and where the job market is often unable to accommodate the surplus labour (even when skilled). "Labour migration is also a means of easing competition on the local labour market, as migration relieves the pressure stemming from a tight market".[12]

11. Abundantly cited by the final report for the study on *Aspects statistiques des migrations internationales au Sénégal* (Statistical aspects of international migration in Senegal) published in French only by the ILO office in Dakar, October 2003.

12. *Migration et Phénomènes Migratoires* (Migration and Migratory Phenomena) published by the AFD, Paris, November 2003.

With regard to the first goal, *i.e.* migrant reintegration, the PDLM scheme is confined largely to the creation of micro-enterprises. It is confined to migrants who have already returned to their home countries, as they only learn of it when they are about to leave France. Any micro-project, which must be presented within 6 months of returning to the home country, is subject to a preliminary study conducted through the French embassy services in Mali.[13] Local government-regulated support structures (*e.g.* AFIDRA, CIDS and GRDR)[14] then implement the project and monitor it over a twelve-month period. (grants were initially awarded up to a ceiling of EUR 4 000, recently increased to EUR 7 000).

PDLM beneficiaries are all, in practice, Malian or Senegalese emigrants to France who have their own plans for economic reintegration and are eligible for one of the OMI returnee schemes[15] (*e.g.* government aid for reintegration, humanitarian aid for repatriation, reintegration programmes for IQF returnees), as well as those returning of their own accord less than 6 months after a stay of at least two years in France.

In Mali, the PDLM data-file for 1996-2000 lists 404 recipients of micro-project grants, with a *de facto* ceiling of EUR 3 664, or CFAF 2 400 000. PDLM-funded projects are located mainly in the District of Bamako and the Kayes area.

In Senegal, PDLM support has been awarded to only about 60 project initiators, including only 11 from 1995 to 1999 in the Senegal River area, home to most of Senegal's emigrants to France.

This scheme certainly plays a social, practically humanitarian role, providing support for those whose emigration to France has been a failure or who are in serious difficulty, even after their return to the home country.

But the scheme is not suitable for everyone, as migrants do not necessarily have the entrepreneurial skills, even with supervision, to run a micro-enterprise.[16] In some cases this is a major reason for project failure, as indicated in the abovementioned IOM/IRD report.[17]

Conversely, the PDLM programme could well interest and apply to migrants wishing to start up businesses, without the grant being tied to their prior return home. And the development rationale requires that support be made available locally to all would-be entrepreneurs, not just returning migrants.[18]

With regard the second goal, namely support for local development in migrants' home regions, it must be said that returnees are not directly involved. This aspect of PDLM is dealt with by *La Coopération Française*, independently of the OMI and

13. A steering and grants committee has been set up, in which the local authorities in Mali (and Senegal) play little part.

14. AFIDRA: *Association pour la Formation, l'Insertion et le Développement en Afrique;* CIDS: *Collectifs des Ingénieurs pour le Développement du Sahel;* GRDR*: Groupe de Recherche et de Réalisation pour le Développement Rural.*

15. OMI: *Office des Migrations Internationales* (reporting to the French Ministry of Employment).

16. If migrants have a trade and substantial savings, PDLM support is viewed as supplementary income, increasing their chances of success.

17. Other reasons for at least partial failure include a particularly long wait before funds become available (for purely administrative reasons), obliging applicants to use up their savings while waiting to launch their projects.

18. In this case, coupling with a credit mechanism may be essential.

addressed like any other development projects receiving French backing.[19] The main focus of such projects is on hydraulics, rural electrification and sanitation. If former migrants are involved, it is because they have fitted back into the social fabric of the area and are engaged in the development of their own region, for instance as members of village associations or elected representatives of local authorities.[20, 21]

It is safe to say that these projects have an immediate social impact. What is less certain is whether that social impact is sustainable, and whether it discourages new emigrants.

All in all, while France is the only country to have introduced a reintegration scheme offering assistance for returning migrants (coupled with a local development programme designed to curb the propensity of would-be emigrants to leave the region), this initiative does have the merit of existing, easing the hardship encountered by some returnees and setting an example for other countries. Switzerland, for instance, has been looking into returns by Malian migrants to see why and how assisted return schemes can lead to success stories or failure.

"Co-development" or co-operation for development

"Co-development" is a flexible concept that originated in France.

Historical overview

To summarise in a few lines the concepts underpinning the work of Sami Naïr[22] and the now defunct interdepartmental mission for co-development and international migration (MICOMI), the French notion of co-development can be described as follows:

It is a new approach that seeks to raise the profile of the role played by migrants in their country's development, facilitate migration flows within a legal, dialogue-based framework and promote active co-operation on the part of the countries concerned. Co-development puts the emphasis on initiatives by migrants with the potential to develop the local economic fabric in their home countries; promotes partnerships between enterprises, local authorities, training institutions and associations; and facilitates the movement of co-development players as part of a negotiated, egalitarian consensus with the home countries. This may lead to the signing of co-development agreements (two have already been signed, one with Senegal and another with Mali, while a third similar agreement has been signed with Morocco but does not refer to co-development as such).[23]

These agreements emphasise the need to develop migrants' occupational skills and know-how, and to mobilise existing instruments such as grants, training courses and work experience.

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19. Hence the involvement of Mali's (or Senegal's) national authorities and external government services.

20. Their migration experience and the know-how they acquire can, in a number of cases, make them competent, credible and reliable project owners.

21. This does not necessarily mean that elected local authorities are themselves involved in the scheme. Yet they are directly concerned by what is, after all, local development.

22. Sami Naïr, an academic, was appointed to head the Interdepartmental Mission "Migration/Co-development" in 1997.

23. Statement by the MICOMI Representative at the West African Regional Conference organised by IOM and ECOWAS on "The Participation of Migrants in the Development of their Country of Origin", Dakar, Senegal, 9-13 October 2000.

Co-development sheds new light on migration, by acknowledging it and raising its profile. Once migration has become a permanent feature or fact of life in the host country, it can indeed support development in the home country. Migrant remittances can exceed the amount that some countries receive in official development assistance. Diasporas play a major role in generating economic activity. There are more and more association-based initiatives that provide basic infrastructure. It is therefore important to take this into account and provide support in a pragmatic way.

The diaspora elite in France (including teachers, doctors, researchers, engineers and computer scientists) comprises several thousand high-calibre individuals, trained in French universities and *Grandes Ecoles*. Most have maintained close ties with their home countries but do not envisage moving back there for the time being, as living standards and working conditions currently stand.

But there are many highly skilled migrants ready to share their know-how and experience on an *ad hoc* basis. This has been confirmed in a recent study by the *Institut de Recherche pour le Développement* (IRD), commissioned by the Ministry of Foreign Affairs. Numerous associations, some of them members of the umbrella association *Forum des Organisations de Solidarité Internationale Issues des Migrations* (FORIM), have already begun moving in this direction.

Owing to the lack of concrete achievements to date, in spite of the three co-development agreements signed with Mali, Senegal and Morocco, the European Commission remains sceptical about France's vision but has retained from the concept of "co-development" the need to work in a spirit of common interests and shared responsibility.

In 2002, an Ambassador for Co-development was appointed24 to take charge of promoting new approaches that involve migrants' associations, government and local authorities and are based on partnerships with the authorities in the countries concerned.

Assessment, current situation and ongoing initiatives

A speech by the French Minister for Co-operation, Development and French-speaking Countries to the Council of Ministers on 8 October 2003 was very specific as to the government's intentions: "How can the formidable energy generated by the diasporas in France be channelled into home-country development? This is the great challenge that co-development is intended to meet".

The French government has accordingly decided to give new impetus to an idea which, since the early 1990s, had remained largely on the drawing board. The time has come to define an overarching strategy and devise programmes that will put it to practical use. Co-development is aimed at harnessing the energy of migrants who have settled in France but retained strong links with their home countries, the aim being to promote development. The primary goal is therefore to encourage wealth creation in those countries, regardless of whether entrepreneurs stay in France or return home, which will in any case be a personal decision taken of their own accord.

The French Ministries of Foreign Affairs, Social Affairs, Labour and Solidarity, working with the *Agence Française de Développement*, have accordingly launched a series of initiatives:

24. Ambassador Christian Connan.

- In Mali, which was first to sign a co-development agreement, an FSP[25] project worth EUR 2.6 million is now under way. Launched by the French Ambassador to Mali, with the help of the Ministry of Social Affairs, Labour and Solidarity, it has three components: co-financing local development projects, supporting the reintegration of migrants wishing to return to the home country to set up economic activities (in liaison with France's OMI) and mobilising Mali's scientific diaspora to assist the University of Bamako. General budgetary problems at the French Ministry of Foreign Affairs may well have something to do with the delays in actually launching migrant projects. Meanwhile, the AFD[26] is looking into a project involving savings accounts for would-be homeowners in Mali. The French Embassy there is also conducting a feasibility study on ways of mobilising migrant savings.

- In Senegal, where a co-development agreement was signed in May 2000 (but has not as yet been implemented), plans for FSP funding have been under way since late 2003 but the proposal has not yet gone before the FSP Steering Committee.[27] Here too, general budgetary problems at the French Ministry of Foreign Affairs are probably responsible for delays in actually implementing the agreement. The co-development project between France and Senegal provides, first, for the introduction of a permanent mechanism to harness the expertise and know-how of highly skilled migrants legally settled in France, with a view to meeting the needs of the civil service and private sector in Senegal and, second, for the transfer of Senegalese migrants' savings back to their country of origin. France intends to use the same procedures and structures as in Mali (the OMI and non-governmental organisations [28] in France and local NGOs in Senegal).

- In Morocco, a project worth a total of EUR 3.8 million (with EUR 1.5 million in European funding and the remainder from investors) and implemented by the AFD will create rural tourism infrastructure in the region of Taroudannt and establish SMEs with the help of a seed fund set up by the *Caisse des Dépôts et Consignations* (CDC) and its Moroccan counterpart. The CDC is also participating in a technical co-operation project that will reinforce the legal and financial framework to attract more migrant savings back to Morocco, where they will be channelled into productive medium and long-term investment projects.

At the request of the French Ministry of Foreign Affairs, the AFD is also working on the theme of co-development and has commissioned from the CFSI[29] a study entitled "Migration and Migratory Phenomena: Financial Flows, Mobilising Savings and Local Investment".

The outstanding point here is the dual policy focus behind co-development:

- Channelling migrant savings into investment that is productive and/or creates jobs in migrants' home countries.

25. FSP: *Fonds de Solidarité Prioritaire* or priority solidarity fund.

26. AFD: *Agence Française de Développement* (French Development Agency).

27. Amounting to possibly EUR 2.5 million.

28. The French government is employing fewer and fewer officials for this type of work, preferring to contract it out to specialised NGOs, along the lines of the Anglo-Saxon model.

29. CFSI: *Comité Français pour la Solidarité Internationale* (French Committee for International Solidarity).

- Engaging diaspora elites in home-country development (there can be no development without supervision and the transfer of knowledge and know-how, however competent people may be).

The French approach to co-development can accordingly be viewed as a means of linking migration and development that might well serve as a model for other OECD member countries.

Lessons drawn from the initiatives under way

Two existing studies are particularly instructive in terms of the lessons that they can teach. First, there is the IOM/IRD Dakar study on migrants returning to Mali mentioned above, and then there is the very recent study commissioned by AFD Paris on *Migration et phénomènes migratoires.*[30]

The study of the IOM/IRD Dakar Joint Research Unit

According to this study, migrants returning to Mali who are engaged in the economic reintegration process find themselves in a wide range of situations: among the many parameters involved, can be mentioned, for example, the conditions in which emigrants lived in the host country, the conditions in which they returned to their home country and in which the actual idea of the project emerged. There are also other relevant factors, in particular with regard to their projects, such as their skills and know-how, level of education and training in relation to the project, financial capacity, entrepreneurship and ability to take advantage of opportunities in the various sectors of the home country's economy, etc. The migrants' social position in relation to their family and local community of origin are also other factors that affect the economic and social reintegration process when they return.

In the following section, some of the conclusions of the IOM/IRD Dakar study are presented, although the author does not necessarily agree with all of its recommendations:

Conclusion *1a)* of the study. Like many sending countries, Mali finds itself in a somewhat difficult position for developing an institutional framework responsive to the current context of international migration (*i.e.* the fact that host countries are closing their borders, combating clandestine migration and repatriating undocumented migrants). This framework must be defined in partnership with the main destination countries of its nationals and enable it to manage all aspects of international migration more effectively, in particular those involving the return and reintegration of Malians abroad. Even though the creation of a department within the Foreign Affairs Ministry responsible for developing national policy for managing, assisting, protecting and promoting nationals living abroad shows that the government is genuinely committed to developing a management policy aimed at Malians abroad, concretely this has not given it any control over the international migration process and, more specifically, over the process of the return and reintegration of Malian migrants.

Comments: If Mali wishes to benefit from its migrants, like Senegal and some of the sub-region's other countries, it is not in its interest for too many of them to return home. Migrants living abroad legally generally do not pose diplomatic problems with host countries. Consequently, it is definitely in the Malian government's interest to maintain

30. The interim document consulted is dated November 2003

good relations with its expatriate nationals so that they will have an incentive to send home all the resources that they can. This is why it has created specialised "departments" within the Foreign Affairs Ministry which are theoretically in charge of all administrative, assistance and protection issues involving Malian nationals living abroad. In fact, these departments can do relatively little because of the limited funds available to them, and they are unable to provide any assistance to Malians who wish to return and resettle in Mali, just as they are unable to defray any costs or provide support for the reintegration of migrants who have already returned.

Conclusion *1b)* of the study. The programmes for the assisted return and reintegration of migrants that have been developed thus far in this country have not in fact led to any direct involvement of the Malian government, which sometimes has been faced with a *fait accompli* requiring it to manage a group of nationals in a "situation of distress" because they have been repatriated, most often involuntarily. The fact is that the lack of co-operation and synergies between host countries and sending countries can lead to dysfunctions in the planning and execution of projects for productive ventures.

Comments: Mali has had to face, in particular during the recent events in Côte d'Ivoire, mass forced returns and the Malian State has allocated resources to pay for certain repatriations, the reception of returning migrants and, to a lesser extent, their reintegration into Malian society. Of course, dialogue with the Côte d'Ivoire authorities was not an option. Mali has also regularly had to face involuntary returns from third countries, particularly from European countries, because of "escort to the border" operations (deportation of undocumented nationals). There is formal dialogue for this type of return, in particular since readmission visas are requested for all persons concerned. Dialogue at the policy level has been discussed a number of times, in particular during Franco-Malian bilateral negotiations regarding the co-development project, but without much success, as the viewpoints are hard to reconcile. programmes of assisted voluntary return (and economic reintegration) in the home country are currently only being organised and financed by the host country.

Recommendation: Programmes for the return and reintegration of migrants must be carried out through a partnership with the government of the home country, which must be involved in the entire process of assisted return and economic and social integration of recipients.

Comments: This is certainly an objective to be attained, but given the current situation and the fact that it is not in the home country's interest for its migrants to return, this does not currently seem to be a priority for authorities of home countries.

Recommendation: The partnership should lead to the establishment of functional support and guidance structures in the host and home countries for the planning and implementation of return programmes, the realisation of investment projects and the creation of pools of viable projects for migrants.

Comments: It would be advisable to separate return programmes (which really only interest the host country) from programmes and mechanisms that encourage migrants to become involved in investment and/or know-how transfer projects that will benefit the home country.

Conclusion *2)* of the study. The fact that financial aid is provided does not automatically guarantee that the projects of migrants returning from a foreign country will be successful. It cannot replace the indispensable training required and the need for the project to be adapted to the local context and for entrepreneurial skills. This is why, in

the case of migrants returning from other African countries and who follow the family traditions of becoming shopkeepers (the Soninké, which are the largest group in our sample, have long been active shopkeepers), which opens up opportunities that are not available to migrants returning from Europe, even if their projects only produce mixed results.

Recommendation: The financing of economic reintegration projects for returning international migrants must be based on each applicant's specific socio-economic profile. Surveys have shown that each migrant with a project has a specific profile, and that returning migrants will have a better chance of being successful in their economic reintegration if their projects are handled on a case-by-case basis.

Comments: It is advisable to verify each person's entrepreneurial abilities. These are not something innate, but are associated with a frame of mind. For example, there is every reason to expect that someone who has worked as an employee all their life may have difficulties in developing an entrepreneurial frame of mind.

Conclusion *3)* of the study. Cities, rather than villages, hold out greater promise for returning migrants with projects, as cities provide them with opportunities, markets, labour, innovations, etc. If difficulties arise, the returning migrants are hopeful that they will always be able to find a solution. The city of Kayes, despite it being much smaller than Bamako, also offers opportunities that that are not available in the Soninké villages of the surrounding areas.

However, the fact that an investment is made in a city does not make it any easier to develop the project. Surveys have shown that half of urban-based projects, whether or not they are supported by funding providers, ultimately fail, which is the same percentage as for rural projects.

Recommendation: The projects of returning migrants must be suited to the local context of the place where they intend to move.

Comments: There are many causes of failure and it is important not to lose sight of the fact that, in addition to the local context mentioned above, other factors related to individuals and their intrinsic abilities also play a role. Furthermore, support is certainly more readily available in cities than in the country, especially when more than one kind of support is required simultaneously.

Conclusion 4) of the study. There is no discernable standard socio-economic profile for migrants returning with economic reintegration projects that predisposes them to be more successful. Their managerial capacity is low, as most of them do not have effective management tools. The technical grasp of projects is also very low for the returning migrants surveyed. This weakness is explained by migrants' lack of adequate training for the project, either because they have changed their occupation or because they are insufficiently prepared in the field of activity chosen. Not surprisingly, surveys have shown that sound knowledge of management, a clear idea of the project before starting up, and experience and knowledge of the sector involved are factors that have a positive influence on the success of any economic initiative for reintegrating returning international migrants.

Comment: Plans made in advance about the sector of reintegration are very theoretical if this sector is different from the one in which the migrants worked while living abroad or before they migrated, especially if they have been away for a long time.

Recommendation: Occupational training and training in project management should be promoted among migrants living in host countries to enable them to reintegrate more successfully through their productive economic activity. To this end, there must be lasting technical support, advisory services and monitoring of progress for projects initiated by returning migrants.

Comment: It would be advisable for occupational and management training also to be provided in the home country, for the learning conditions will be closer to the real local situation that the migrants will have to face when carrying out their projects. The difficulty with this approach is that funding providers (who are currently exclusively in the host county) prefer that this training be provided in their country so that they can oversee its various aspects more effectively.

Conclusion *5)* of the study. Some projects undertaken in Mali (such as farm investment) cannot be thought of as productive economic activities, for this type of project, based on non-commercial subsistence farming, is aimed entirely at meeting family consumption needs. For this reason, it does not generate a profit that can be reinvested and used to expand an economic activity. This type of project is not aimed at creating a cash surplus that can raise the standard of living of the returning migrants and their families.

Recommendation: Promising projects must be better targeted in the few sectors of activity in which returning migrants will be able to reintegrate successfully.

Comments: Out of pragmatism, rather out of a desire to boost the technical success rate of the initiatives they support, funding providers choose to finance projects that, by definition, can generate an income through a professional activity that is at least sufficient to cover the needs of assisted return applicants and their families. Agricultural projects of a type that will only meet the family consumption needs should not be eligible.

Conclusion *6)* of the study. The failure of many projects can be explained by a poor preparation process and by their financial vulnerability. Those initiating projects have no access to additional resources, in particular from outside the project. This being the case, the economic viability of projects is far from certain because of difficulties in the preparation stage and in the way the projects have been designed.

Recommendation: Measures to facilitate the mobilisation of national and international funds for the granting of credit on preferential terms to migrants initiating projects in reintegration programmes should be promoted and if possible made permanent.

Comments: 1) there are many causes of failure. It should be pointed out that one of the causes of financial vulnerability that has not been mentioned previously is generated by delays in payment by funding providers. These delays (which can be as long as several months) have forced certain returning migrants to live off their own savings while waiting for the promised credit to arrive, with the result that their savings have been depleted when the aid subsidies arrive, 2) it is not possible under the present circumstances for preferential terms to be granted solely to migrants with projects.

Conclusion *7)* of the study. A large household can provide support to returning migrants, for they initially recruit manpower within their families. In some cases, it will be difficult for a single individual to develop a project, and this also shows that these projects are rarely separate from broader family considerations that will have a positive impact on the economic activity.

Recommendation: Any reintegration project by a migrant should be integrated into the family context, especially for projects involving SMEs, which in reality are family-run businesses.

Conclusion *8)* of the study. Migrants who are in a difficult situation in host countries have real difficulties in being successful in their economic reintegration after returning to their home country. They are in a difficult situation because they have little available capital, and must simultaneously meet the consumption needs of their family and develop a profitable economic activity.

Comment: It is unlikely that such persons will have the ability to develop a profitable business activity, even if it is very small. The best solution for them is no doubt for them to find work as an employee.

Recommendation: For this group of migrants, an assisted return and reintegration programme should include a "social reintegration" component (within the family) and an "economic reintegration" component (a productive project to be financed when they return). For the social component, a system of financial aid for the reintegration of migrants should be established, taking into account the specific needs of their family of origin.

Comment: It is unlikely that funds will be found to introduce this type of scheme in Mali, unless they are provided by private charitable institutions.

The AFD Paris study[31]

This study is broadly devoted to how migrants' savings can be used for development, and it proposes the introduction of adequate financial tools. It is based on a strong assumption: "that the migration pathways of migrants can be decoupled from the flows of the financial resources that they have saved".

The author agrees with this assumption inasmuch as migrants' migration pathway and their conditions of residence in the host country have little influence on their decision to transfer their available funds to the home country. It is well-known that illegal migrants send as much in remittances to their families in their home country as do legal migrants, if not more. The former keep a low profile and often simply send remittances to their family to cover their basic needs, and generally do so through informal channels. The latter, however, who are legal residents, are able to save and consider investing in economic activities, and can act openly and use formal channels if they so wish.

With regard to the purposes for which the remittances are used, the study enumerates the specific difficulties encountered for each purpose in Figure 19.4.

The study proposes two series of recommendations:

31. The study *Migration et phénomènes migratoires* conducted by a consortium of organisations: the *Comité Français pour la Solidarité Internationale* (CFSI), the *Forum des Organisations de Solidarité Internationale Issues de l'Immigration* (FORIM), the *Groupe de Recherche et d'Echanges Technologiques* (GRET) and FINANSO, Paris, November 2003.

First series of recommendations of the AFD study: the need to ensure the security and optimum use of the savings transferred

The study recommends ten conditions to ensure the security and optimum use of the savings:

1. Interbank channels should be used for remittances, relying on local financial networks both in the host and home countries.
2. Access to preliminary study and advisory services would make it possible to ensure the relevance and viability of economic projects.
3. Activities and results of initiators of projects working in partnership with migrant investors should be monitored regularly.
4. The establishment of an investment assistance structure in the home country would provide the administrative interface for reducing the problems of corruption and misappropriation of funds often mentioned. The objective is to create a favourable institutional environment.
5. A structure that could act as an interface in direct contact with entrepreneurs and investment projects in the home country and migrant entrepreneurs would make it possible to create a favourable economic environment by providing information on investment and partnership opportunities.
6. A mutual insurance system would cover major expenses in the home country, such as health care.
7. Co-investors would provide financing for social investments (public subsidies, international solidarity aid) and productive investments (venture capital from the organisations of the social economy) approved by migrants or their associations.
8. The decision to invest in local social infrastructure would be discussed and included in a local development plan, which would incorporate elements that would ensure its continuity.
9. Guarantee funds would make it possible to grant bridging loans in the home country to ensure continuity in the construction of social infrastructure and housing.
10. Guarantee systems would make it possible to grant credit in the home country.

Second series of recommendations of the AFD study: possible targets for new activities.

Community infrastructure

The objective is to support associative projects that will not initially be able to meet the full cost of the planned infrastructure. Even if a project is institutionally co-financed (decentralised, bilateral or multilateral co-operation), the financial participation required from the migrants' association, provided through a call for contributions, can be burdensome to its members.

To spread the contribution required by members over time, the introduction of a financial product, such as bridging loans, might be envisaged. Steps could be taken to set

up a guarantee fund financed by an institutional lender and managed by an international solidarity organisation or by an interface structure within the social economy.

This interface would select the projects of migrants' associations (on the basis of their social utility and plans to ensure their continuity). Thanks to this guarantee fund, a bank in France would grant credit to the migrants' association. All members would reimburse their share of the loan and a principle of joint surety would cover any member's failure to pay. Projects would be monitored by the interface through its local office.

Remote mutual health care insurance[32]

Local investment and support

The objective is to establish favourable conditions that will enable returning migrants to carry out the entrepreneurial initiatives as successfully as possible by providing assistance with the preparation of the project, its final start-up and its management. For this purpose, support structures in the North and the South can provide a number of schemes more or less adapted to the migrant's profile. However, the high cost of this "training" can sometimes discourage migrants. A co-financing system would enable migrants with business projects to enrol in this type of scheme (if they thought it were in their interest to do so). Steps must also be taken to identify and develop in the South structures that can continue to provide this training, support, technical assistance and aid to investment [such as the Regional Investment Centres (CRI) in Morocco]. The experiences of IntEnt (Netherlands) and of PMIE (France)[33] in this field are very instructive about the mechanisms that must be established.

Local investment and guarantee funds

To promote investment at a distance and thus access to credit, contacts must be established between migrants and institutions of the social economy in France. Migrants put their savings to use when they provide support to a family member carrying out a project. Institutions of the social economy collect the savings for solidarity in the North in order to promote investment in the South (guarantee funds, venture capital, refinancing, etc.). The conjunction of these mutual interests, which could be given an institutional structure, would make it possible to share risks and management costs and structural expenses. This system would generate a financial leverage effect (on the financial structure of the enterprise).

These recommendations call for some comments:

Who is carrying out the project? Most existing or planned mechanisms only envisage projects carried out by returning migrants, with the issue of financing being left until later.[34] Experience shows that it is vital to be as fully informed as possible about the

32. This item is not part of the subject being treated.

33. PMIE: *Programme Migrations et Initiatives Economiques* of PS-Eau (Water Solidarity Programme), a network of French NGOs. One of this programme's many objectives is to help set up projects for resettlement in the home country and what are known as "investment at a distance" projects by providing information, advice and guidance to migrants. PS-Eau is also a key partner of the French Foreign Affairs Ministry for Franco-Malian co-development. This NGO might play a similar role within the Franco-Senegalese co-development programme currently being prepared.

34. It is perhaps a mistake to wish to transform all migrants that one would like to help into entrepreneurs. No doubt this is due to the fact that the implicit objective is to help these migrants to return home.

situation in the field and about the most crucial parameters likely to ensure the project's success. Experience also shows that knowledge of these parameters diminishes increasingly the longer migrants live outside their home country. It would appear that the best designed projects are those carried out by actors in the field, independently of migrants. This means that the best role that migrants can play is either to finance (or co-finance) the project or provide modern techniques that complement those mastered by local actors, or both. For socio-cultural projects, local authorities (when they exist and are functional) seem to be the most appropriate local actors for preparing proposals that are adapted to the real needs of the population. If carefully planned, there is every reason to believe that the various projects will be highly cohesive (well-co-ordinated, complementary, etc.) and can be proposed to funding providers.[35]

Furthermore, it seems inappropriate to speak of transfers of savings, since migrants generally transfer their available funds as soon as they receive their wages (since they know that their enlarged family or friends from the same village are likely to ask them for any money that they do not intend to use immediately and that it is hard to refuse such a "loan", which will rarely be paid back). Only a minority of them, who is sufficiently independent of local traditions, is able to consider accumulating real savings (and/or preparing real economic projects for themselves or even for a family member). These people can be described as "migrant investors".

With regard to banking networks, it is certain that only networks consisting of stable and reliable banking partners at both ends can guarantee the effective transfer of funds to their recipients in the field. The more local branches and correspondents the bank has in the home country and even in villages, the easier it will be to send the funds being transferred to final users.[36] In addition to the ability to make secure transfers to the most remote areas, migrants are looking for the most economical ways of transferring money and therefore refuse to pay bank commissions that they consider to be excessive.

It is certain that if these transfers could be made by banks that also were able to loan additional funds for projects in the home country (which is rarely the case today),[37] these channels would be more successful.[38] It would then be possible for projects carried out by local operators or returning migrants (the initiators) to be guaranteed by migrants who would continue to live outside their home country. These kinds of cross-border guarantee mechanisms would require highly innovative and solid (and closely monitored?) inter-bank ties.

35. If the local authorities of the South (or the state) are also able to participate in financing, their involvement will be even more effective.

36. In many cases, the only possible solution is to use informal channels that generally go through shopkeepers (even small ones) located in the villages to which the funds are being sent. The "SFD" system (decentralised financial system) studied by the *Centre International du Crédit Mutuel*, mentioned by the AFD study, no doubt constitutes an approach that should be explored.

37. Defaults on repayment have been so frequent that banks are reluctant to lend, and when they do so, they apply such high interest rates that they have a heavy impact on the profitability – and thus the feasibility – of the project.

38. Some experts and NGOs recommend establishing contacts between migrants and organisations of the social economy in the North (in particular in France, such as PS-Eau). A Europe-wide venture capital and consulting company such as "Afrique Initiatives" is active in the same field. Although these micro-credit schemes can provide solutions for a few migrants (or migrants' associations), it is difficult to give them institutional status and solve all the credit access problems of all migrants.

It is clear that if official (and therefore institutional) mechanisms for promoting private investment were to play their role fully, they could also make it easier to contact and involve "migrant investors". These interfaces, known as "one-stop shops" (since they theoretically facilitate all administrative procedures) are generally available to all investors. They are found in most developing countries but not all of them are very effective. It would also be possible to consider creating dedicated organisations for "migrant investors" to attract this type of investor more specifically.

Co-investment is no doubt one of the most innovative ideas that should be promoted.[39] However, a careful distinction must be made between public interest infrastructure of a "socio-cultural" nature and productive investments (business creation generating wealth and employment). The former concerns all categories of migrants (from the wealthiest to the poorest and the most highly to the least educated) and co-investments can only come from official assistance or international solidarity and, in our view, more especially from local authorities in the North that govern the areas where the migrants live. In the latter case, the co-investment follows a different rationale, of an industrial and commercial kind. The co-investors may be other types of investors (not necessarily migrants) or public or private support programmes (PDLM type grants, venture capital from organisations of the social economy, bank loans,[40] etc.).

In any event, it can be seen as the need to establish structures in the South, close to the populations concerned, that will prepare projects and propose them to migrants (through appropriate intermediaries in the North), and that will imagine, search out and organise the appropriate partnerships.[41]

Approaches to be explored

The institutional landscape

Policy directions in the North and the South

Most European migrant receiving countries now have two relatively distinct concerns: 1) to retain the migrants that they need the most to keep their own economies healthy and even dynamic, while using all means available to ensure that all migrants not indispensable to their economic development leave, and 2) to help sending countries with their development, for reasons of international solidarity but also in order to develop new markets that will consume their industrial goods and service. The problem here is one of integrating policies that are generally the responsibility of two ministries that work independently of one another. This difficulty is made greater for each of the European countries concerned by the requirements of European construction and the need to integrate domestic policies (labour markets) with foreign policies (development assistance/co-ordination with the European Development Fund and the other EU aid instruments).

Most of the ACP countries, which are sending countries, although they do not support a mass return of their nationals living abroad because of the situation on their local labour

39. The PDLM type "one migrant, one project" approach appears to be very restrictive.

40. See above.

41. If such mechanisms were successful, central governments would be very tempted to step up their already very real disengagement from high-emigration regions.

market and the funds that would be lost if remittances were to decrease,[42] nevertheless wish to strengthen these nationals' ties with the home country so that they will contribute as greatly as possible to their development. Concretely, this means using not only the surplus savings, but also the intellectual and technical abilities that they can invest in economic development.

In both cases, there is a stated policy objective of linking migrants and development. What is the situation regarding the implementation of these policies? What structures and mechanisms are being used?

Existing structures and mechanisms

Ministries and departments in the North and the South

In most European receiving countries, the Ministry of the Interior is in charge of migrants, while the Ministry of Labour is responsible for the labour market and the Ministry of Foreign Affairs is primarily responsible for ODA. Some countries, such as the United Kingdom, Germany and Belgium, have a specific Development Agency. Some countries may have Inter-Ministerial Commissions or Committees, or, as was formerly the case in France, an Inter-Ministerial Mission to co-ordinate policies regarding migrants with development assistance policy. However, these policies cannot be described as being integrated.[43]

It is increasingly common for policy-makers and especially Heads of State in most emigration countries to praise the achievements of their diaspora and wish to involve them if they can promote or contribute to the country's development in any way, whether they are football players, academics or workers. In some countries, such as Benin, Senegal and Mali, a specialised Ministry has been created within the government. At present, these Ministries generally have scant financial and human resources and are focusing their efforts on improving relations between the diaspora and state administrative services. However, migrants, who have a real need for these improved relations with their capital, also intend to use these structures to participate in the political and economic life of their country. Thus, many of them propose plans for projects to these Ministries, which range from projects of a social nature to business projects.

Events such as the "First Malian Diaspora Forum" (Bamako, October 2003) mainly provide an opportunity for the authorities and expatriates to discuss the respective issues that are of concern to them. An attempt is often made to try to find points of convergence. In general, the government makes commitments, but the challenge will be for it to keep them.

Consequently, much remains to be done to broaden and intensify internal dialogue both in the North and the South.

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42. "The situation is exacerbated by the economic importance of remittances in many countries of origin, the loss of which as a result of large-scale returns might bring about serious economic difficulties", Council of Europe, "Towards a Migration Management Strategy", Strasbourg, July 2003

43. Study by the CES Paris 2001: *De l'exode à la mobilisation des compétences dans le cadre d'un véritable co-développement.*

Organisations for bilateral, multilateral and international co-operation

With regard to bilateral co-operation, there are different approaches to the relationship between migration and development. France committed itself to the idea of co-development over ten years ago, but it is only now adapting its content, which is constantly changing, so as genuinely to involve migrants in development operations. Italy is a country that is only now initiating these types of concepts, with Ghana and Ethiopia as pilot countries. Senegalese migrants, who are very numerous in northern Italy, are encouraging the Italian authorities to support them in their efforts to make proposals to the Senegalese authorities.[44]

Multilateral co-operation between the European Union and African, Caribbean and Pacific (ACP) countries is governed by the Cotonou Agreements. Article 13 of these agreements clearly specifies the commitment to non-discriminatory practices regarding the employment of migrants in the European Area.[45] It also provides specifically for training programmes for migrants from ACP countries aimed at their re-employment (again implying the underlying idea of their return).

International co-operation in the field of migration and development was initiated by the UNDP with its TOKTEN Programme.[46] This programme is still being implemented in some countries such as Senegal (harnessing of know-how in many fields) and Mali (chiefly the University of Bamako). The IOM, for its part, has successively implemented the Return of Qualified African Nationals (RQAN) Programme and then the Programme Migration for Development in Africa (MIDA). The latter programme is aimed at setting up and ensuring the continuity of a national scheme for harnessing the diaspora's skills. It is currently operational only in the region of the Great Lakes, but a number of sub-Saharan countries have expressed great interest in this programme. On a number of occasions, the World Bank has shown interest in the issue of harnessing of the diaspora's skills, particularly when the aim is to finance the training of high-level staff for the government administrations of African countries.[47]

All things considered, as dialogue between partners is crucial, the author believes that it is advisable to adopt the following position of the Council of Europe:

> *"Therefore, migration should be on the agenda of political dialogue between states of origin, of transit and hosting states and issues such as human rights, bilateral technical co-operation, causes of migration, irregular migration as well as obstacles to return should be discussed. As this dialogue aims at sustainable co-operation, and as the countries of origin are not particularly interested in the return of emigrants, it is important to first establish a climate of confidence and mutual understanding, which will subsequently allow both parties to negotiate on an equal footing. There is something for everybody in such a situation and it is therefore in the interest of each party to fulfil his side of the contract".*[48]

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44. For further information on this project, consult the IOM Rome on www.iom.int/mida/index.html

45. Provided, that is, that the migrant is living there legally. This same article stipulates that readmission agreements will be virtually automatic for undocumented ACP migrants.

46. TOKTEN: Transfer of Knowledge through Expatriate Nationals.

47. Symposium of the World Bank/Association *Démocraties* on "Diaspora et mobilisation des compétences", 12 March 2003, video-conference Paris, Bamako, Dakar and Cotonou.

48. "Towards a Migration Management Strategy", Council of Europe, Strasbourg, July 2003.

Local authorities and decentralised co-operation

The local authorities in the North generally have the institutional capacity to develop co-operation initiatives with their counterparts in the South. The projects are either developed by associations or NGOs in the North,[49] or by local authorities in the South.[50] All these initiatives are part of what is known as decentralised co-operation. In a country such as France, this form of co-operation is subject to relatively strict rules, but despite this there are many failures on the part of "amateurs" and "volunteers".[51]

In the local government jurisdictions in the EU that have large numbers of migrants (the Commission also grants subsidies to NGOs and local governments with projects), these migrants have understood how advantageous it would be to organise projects for their village, city or district of origin, which might be financed by one of the levels of local governments in the North where they live. For countries of sub-Saharan Africa, these projects mainly involve local governments of France, Italy and Spain. The difficulty with this type of initiative (to which local governments of the North agree to fairly readily) is that these projects are generally not very well adapted to local conditions.

How can this development tool be improved?

The effectiveness of decentralised co-operation is determined by the structures established both in the North and the South, but above all by the people involved in making these structures work.

With regards to how this tool can be used as a means of improving the life of local populations tempted by emigration, it would be advisable to combine the resources available in local governments with the funds provided by migrants living within the jurisdiction of these same local governments in order to target cities and villages in which these legal migrants have family members, and thus establish a channel along which information can pass and convey the "right messages". This joint mobilisation of migrants' savings and the resources of the host local governments will be all the more effective to the extent that it targets projects and programmes initiated in the field and that have been identified concretely by local governments of the South in the course of their own planning activities. This would enable the various actors to organise in order to set up joint financing and partnerships. For example, the Ministry for Decentralised Co-operation and Regional Planning of the government of the Republic of Senegal is seeking to set up an agency that will be specifically devoted to this process of organising partnerships and joint financing between migrants and local governments of the North (and also local development funds, of course). The French government might promote and even sponsor these kinds of initiatives.

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49. Most NGOs in the North operate like genuine service provision companies that employ a broad range of specialists such as training instructors, project organisers, lobbyists and other fund-raising professionals. An NGO such as "BATIK International" in France has joined together with other NGOs to support the "co-development platform" organised by the Regional Council of the Rhône-Alpes Region in partnership with other government bodies such as the ANPE (the National Employment Agency) to provide support for migrants who have projects for their home country (whether or not they intend to return home).

50. These initiatives are often the result of twinning arrangements between the same level of local or regional authorities.

51. These failures are mainly due to the fact that the projects are ill-adapted to local conditions, or to the lack of professionalism of the actors carrying out these projects.

Approaches that should be promoted

- Not all migrants targeted to receive assistance by the programmes set up in host countries have the requisite entrepreneurial skills.[52] This means that, alongside aid to entrepreneurs, complementary assistance must also be provided to enable the others to find jobs as employees in their home countries, where they can play an equally useful role.
- The migrants who have available funds to invest in local social or development projects generally would like their name to appear so that their contribution will be known to their family and friends. For this reasons, for social investments such as schools, dispensaries or places of worship, migrants give strong priority to investing in their home village or district, where they are known and where their contribution will bring them social prestige.[53]
- Migrants who have limited financial resources, often from rural areas, need to have trust in those who are going to use their contribution. This means that any project must be able to be monitored and that the use of funds must be traceable.
- The social and local development projects that are most likely to succeed from a technical standpoint are those prepared by local technical structures, such as those in charge of preparing local development plans, which are also approved by elected local authorities. These projects must be proposed for financing to all possible funding providers, including migrants.
- Migrants, who are generally wary of modern savings and credit mechanisms[54] (with all their attendant constraints), need to be able to identify clearly how their money is going to be used before they make transfers.
- The size of a project should be adapted to the capacity of its initiators and their financial partners. In other words, it is recommended not to rely on credit, especially in sub-Saharan Africa. On the other hand, for a given project, it is advisable to have many financial partners (especially migrant investors),[55] some of whom will remain in the immigration country and guarantee the loans granted to those initiating projects in their home country.

52. This is no doubt due to the fact that the implicit aim is to help all of these migrants return to their country.

53. With regard to managerial-level migrants who can become involved in contributing to the development of their home country, Eveline Bauman (IRD, Bondy, France, August 2002) considers that: "*they are interested in well-paid professional opportunities, personal development and status and prestige, and want to distance themselves from a social, economic and political environment that they often see as being restrictive and wish to develop as individuals and realise a personal project*".

54. The concept of savings is not widely practiced in sending regions since, culturally, people in these areas can rely on family or clan solidarity in case of need and, conversely, they can be asked at any time to help other people (and have little latitude to refuse). Only people who are sufficiently distant from their families can go beyond these practices and adopt modern practices of savings.

55. The "one migrant, one project" approach lacks flexibility and makes it impossible for certain sound individual projects to succeed because their financing remains vulnerable.

Mechanisms to be implemented

In the South

The most logical approach would be to set up a "permanent structure" in a specific country that would simultaneously be able to ensure the following:

- The promotion of projects that emerge in regional and local planning processes (approved by the local authorities) aimed at involving migrants (or their associations) and other potential funding providers (local authorities in the North and the South, bilateral and multilateral co-operation, etc.).
- The organisation of financial[56] and technical partnerships around each project.
- The role of the main contractor (the delegated main contractor might be chosen through the relevant local authorities and the project owner might be chosen in the field).
- The monitoring of the progress of projects that have obtained financing, firstly by ensuring that funds are collected and transferred and that regular information is provided to all partners, including on disbursements, and, secondly, by monitoring implementation.
- The critical assessment of projects that have – or have not – been completed successfully.

This structure should be placed under the supervision of the Ministry responsible for the development of local authorities and be administered and managed jointly with the elected local authorities of the country and the representatives of migrants.[57]

In order to attract migrants, it would advisable to provide an attractive catalogue and documentation on projects both by region and thematic field (agriculture, livestock production, education, health care, infrastructure, etc.) and to engage canvassers in countries that have migrants who can potentially become involved in projects.

Again with regard to migrants, the mechanisms to be implemented should be responsive to the mentalities and traditional practices of migrants in the field of savings and credit. In this regard, it would be best to emphasise joint financing (calling on a number of migrants and several other institutional funding providers if necessary) and to avoid bridging loans or other similar arrangements.

In order fully to involve local authorities, local partners and even the population directly concerned, this permanent structure should establish local agencies, at least in those regions from which most of the migrants come.

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56. As financial partnerships can involve many actors in various places in the North and the South, there is every reason to rely on banking professionals and in particular on close co-operation between Northern and Southern banks, which make it possible to grant loans to initiators of projects in migrants' home country that have been validly secured by one or more migrants living in the North. In this regard, consult the recommendations that will be made by the study of the *Centre International du Crédit Mutuel*.

57. In Morocco, the CRI (Regional Investment Centres) – which have been inspired by the *wali* – provide opportunities for associating local and foreign entrepreneurs (including Moroccan emigrants). They act as an interface with administrative bodies and can provide appropriate training.

If the migrants themselves are initiators of projects, the permanent structure would be responsible for ensuring that the project is well integrated into the regional and local planning process or can replace a project already designated, in which case the relevant local authorities would be consulted and would give their approval.

The introduction of structures of this kind should logically receive the support of the state that would benefit from them. Bilateral funding providers such as France, Italy and Spain would also play a role in such mechanisms, for example through ODA (and co-development in the case of France).

In the North

As indicated above, it is crucial to attract migrants so that they will invest their available funds (or, in the case of migrant investors, their savings) in projects that interest the local authorities of the areas from which they come. To do this, it would not only be advisable to provide an attractively presented catalogue and documentation on projects classified by region or thematic field, but also to engage canvassers in the countries that have migrants that can potentially be involved in projects. These canvassers should go into migrant communities and work directly under the supervision of the permanent structure or the national agencies in the largest host countries if the volume of projects so warrants.

These same decentralised structures might also canvass (using the same catalogues) local authorities in the North and other bilateral, multilateral and international funding providers when delegated to do so by the permanent structure.

These decentralised structures in contact with migrants might take a step recommended by certain NGOs such as PS-Eau in France or the EntInt Foundation[58] in the Netherlands, *i.e.* carry out feasibility study missions in migrants' countries of origin in order make a better assessment of the actual local situation before making decisions on investments.

Conclusions

The labour supplying countries are unable to absorb a mass return of their emigrant labour and it is not in their interest for them to do so (since remittances are crucial to sending countries). The remittances that migrants send to their home countries are essentially aimed at meeting the consumption needs of their families there (school fees, including health care), and then at building collective socio-cultural facilities (schools, dispensaries, maternity clinics, mosques), with very little being used to fund economic activities that creates wealth and employment.

Savings are low because of social practices, and banking institutions find it very difficult to recover the loans that they grant, even when they are used to create businesses that prove to be profitable. Only migrants who are sufficiently detached from their family, clan and social constraints are able to save in order to create their own business or provide funding to people that they trust completely (in particular, close family members).

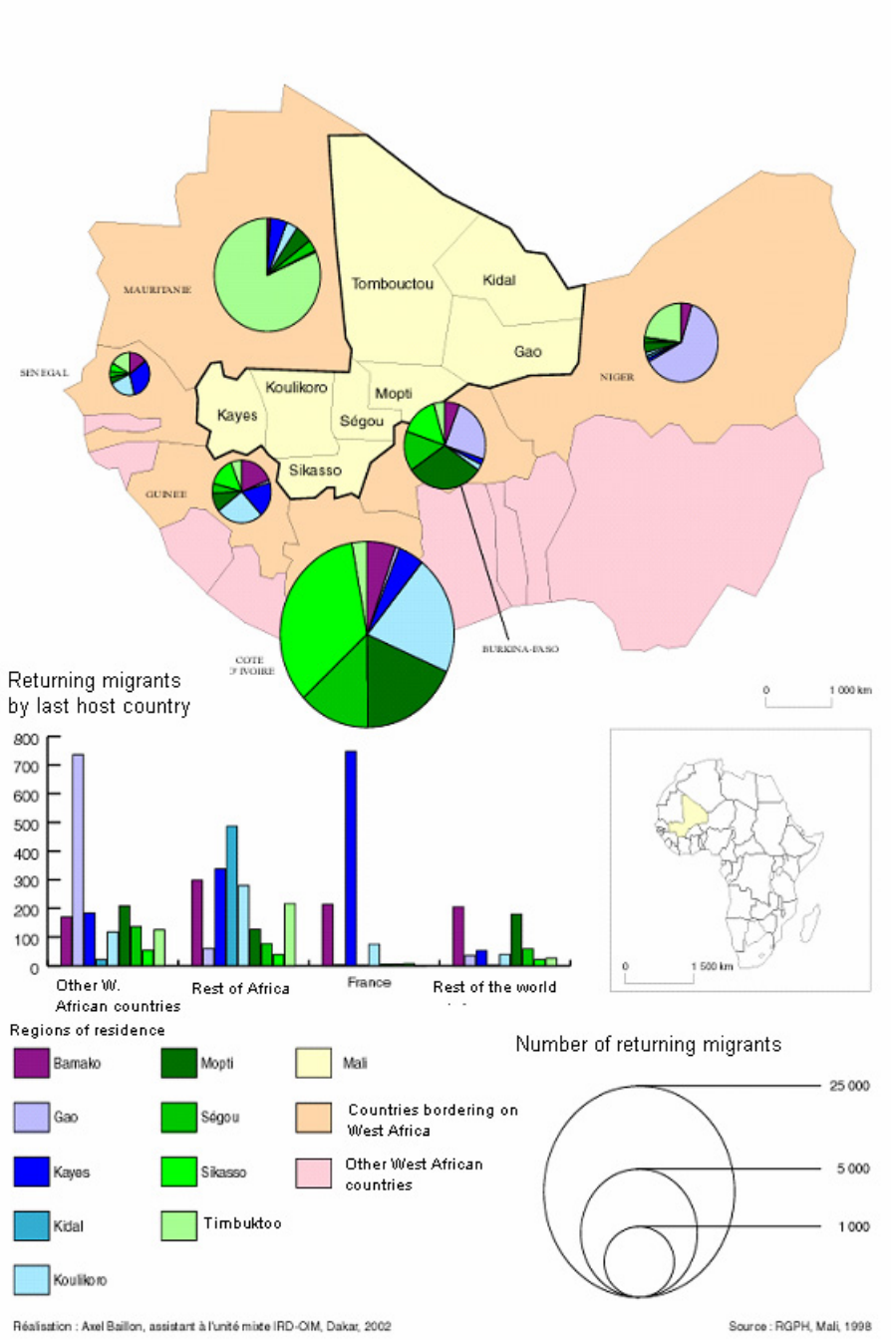
58. EntInt: "Enterprise International", a system of support to joint enterprises in which migrants can make investments at a distance with one or more initiators of projects in the field.

The best projects are those that are developed locally, initiated by local authorities, including for the new economic sectors that have to be developed.

There is a need for dialogue between migrants and their country of origin and it would therefore be advisable to establish a lasting mechanism that goes far beyond the traditional "one-stop shop" and would make it possible to perform a number of functions, including that of presenting migrants with projects that they can carry out in their home region and of organising adequate financing and partnerships for projects. Partnerships will primarily be sought with other "migrant investors" in the case of investments to create businesses, and with other associations and local authorities for socio-cultural and collective investments.

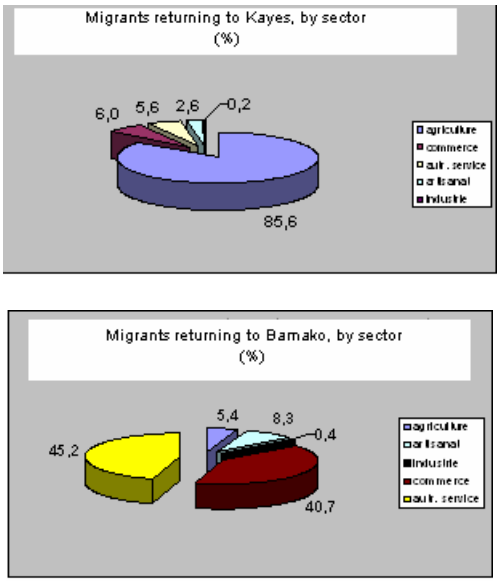
As greater engagement of migrants in the development of their countries of origin is in the interest of both sending and receiving countries, it is also vital to establish international dialogue involving all stakeholders, including the migrants themselves.

Figure 19.1. Returning international migrants by place of residence and last host country, Mali 1998



Source: IOM/IRD report.

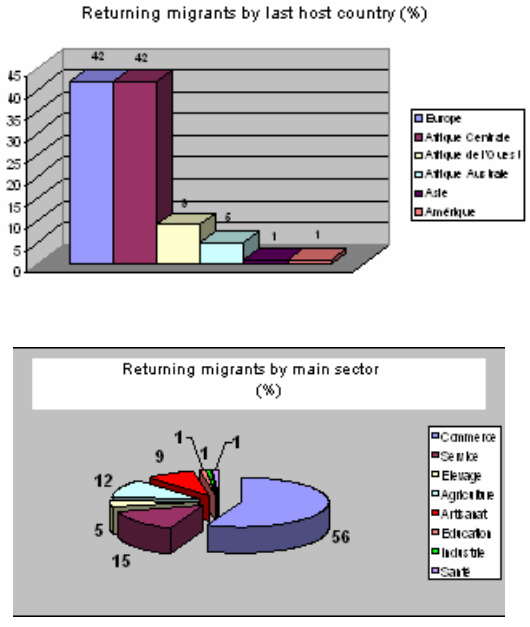
Figure 19.2. Difference between Bamako and Kayes in the distribution of returning migrants by sector



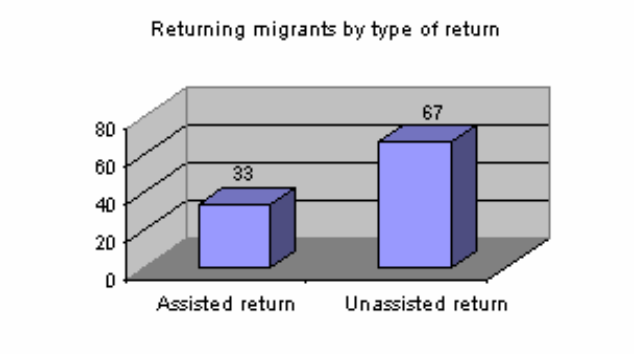
The survey conducted for the Dakar IOM/IRD is based on a sample of some 100 returning migrants who have initiated economic and social reintegration projects in Bamako and Kayes.

Source: RGPH (1998), from the IOM/IRD report.

Figure 19.3. Profile of the sample of returning Malians with plans to launch projects



Sectors: Commerce, Services, Livestock, Agriculture, Trades, Education, Industry, Healthcare



This survey shows that the projects set up by returning migrants vary substantially in terms of lifespan. Of all such projects, 68.1% have encountered major problems: 18.1% in the past (problems resolved) and 50% at the time of the survey (problems ongoing).

Of the projects in difficulty at the time of the survey, 33% had encountered problems right from Year 1. Some projects had survived for only a year (34%). Others had encountered problems in Year 3 (19%) or between Years 4 and 5 (14%). Faced with the failure of their reintegration project on their return home, migrants try to develop replacement activities in other sectors with their remaining capital (if any!). Emigrating again is one possibility, even if it does differ substantially from their initial departure. Farming projects are found mainly in rural Kayes and their lifespan depends on the wet season (around 3 to 4 months) and rainfall intensity. If yields are poor right from Year 1, the project will fail (which demonstrates the fragility of the farm economy and relevant projects in that area).

Projects involving the purchase of vehicles for public transport also have fairly short lifespans. For instance, the Kayes area has very few asphalt roads. The roads are basically tracks that are virtually impassable during the wet season. Usually after one year's use, the second-hand vehicles purchased to cover routes linking the town of Kayes and its hinterland break down regularly, and most returning migrants in such businesses are unable to recoup their investment. Vehicle condition is one of the main factors for sustainable, successful projects in this sector, which migrants continue to view as a growth market.

Source: IOM/IRD study.

Figure 19.4. Specific difficulties encountered for each purpose: consumption, housing, social infrastructure and economic activities

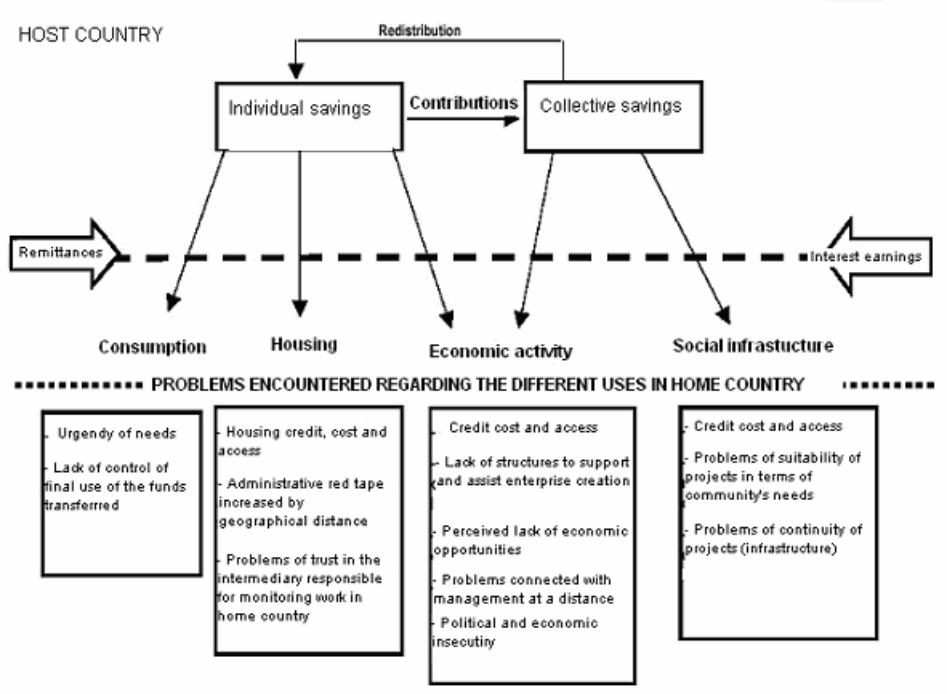


Table 19.1. Problems encountered by migrants with their home-country projects (Mali, Senegal, Comoros, Vietnam and Morocco)

	Mali	Senegal	Comoros	Vietnam	Morocco
Transfers					
Cost and time required for bank transfers	X	X	X		
Distance from banking network	X	X	X		
Lack of confidence in home-country banking sector		X		X	
Insecure informal transfers	X	X	X		
Community projects					
Cash required up front for building work	X	X	X		X
Little support for skill transfers				X	X
Problems with project sustainability	X	X	X		X
Family support					
Problems coping with urgent needs	X	X	X		X
Economic investment					
Expensive and difficult access to credit in home country (for migrant or third parties)	X	X	X	X	X
Lack of advice and supervision	X	X	X		X
Problems with investment sustainability because investors do not assume responsibility	X	X	X		X
Administrative red tape		X			X
Problems entrusting management at a distance	X	X	X		X
Housing investment					
Cash required up front for each tranche of building work, and final cost higher than planned	X	X	X		
Cost of and access to medium-to-long term credit in home country	X	X	X	X	X
Administrative red tape	X	X		X	X
Problem of trust in intermediary (enterprise or family) in charge of building work	X	X	X		X
Problems accessing property deeds	X	X		X	

CHAPTER 20.

THE SUPPORT OF NON-GOVERNMENTAL ORGANISATIONS IN THE COLLECTION OF REMITTANCES

by

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International migration, immigrants' remittances and their effects on the development of the country of origin depend on a number of factors and are the result of a wide range of motivations: the dominant elements are demographic, historico-social, economic, juridical and political, as much in the country of origin as in the receiving country. In addition, migration frequently concerns local issues (which differ widely according to the migration regions). It is thus illusory to think that universal laws can be established that explain the cause and effects of these phenomena. Migration and remittances have both positive and negative effects on macro-economic equilibrium, development and poverty eradication. The net effect on a given emigration region will depend finally on the specificities of the place of origin and the conditions under which the remittances are made. This chapter will concentrate on these and examine the effects of remittances at the level of local development, mainly based on the experiences of a non-governmental organisation (NGO), Migrations and Development (M&D), and its activities in promoting development in southern Morocco, initiated by a migrant residing in France (see Chapter 16, Nadia Bentaleb).

Can migrants play a direct role locally in the development of their country of origin?

Development is not simply the provision of a number of factors such as work and capital. It also implies training, to raise the qualification level of the work force, the transfer of knowledge and know-how and the combination of these factors in a given institutional environment. This is the only way in which migrants can play a direct role in the development of their country of origin.

The role of migrants in the training process: the transfers are not only financial

Over and above remittances, migrants make other, invisible, transfers to their countries of origin: behaviour, knowledge and know-how, and social and cultural exchanges. These "invisible transfers" have multiple facets:

The family: changes in behaviour assimilated by migrants in the receiving country and leading to a decrease in the fertility rate, are transmitted to the population of the region of origin, during return visits for holidays or other reasons.

Behaviour and social organisation: migrants transmit equally a revalorisation of education, notably for women; a more rational attitude to healthcare; new relationships with the administration (taking a stronger individual role); the defence of human and civil rights; and an opening-up to other cultures.

When remittances are transferred collectively through non-governmental organisations (NGO). Through Migrations and Development,[1] as in rural development in the Anti-Atlas region in Morocco, these invisible transfers go further. The financing by migrants of village infrastructures (electrification, water provision and irrigation, roads, construction of medical centres and schools, etc.) is accompanied by transformations in the way of life and of traditional collective management:

- Opening up the traditional village assemblies (the jema'a, grouping together the men, the elderly, the "rich") to the young men, women, migrants, to create village associations.
- Management training and recruitment evaluation so as to be able to take charge of the institutions which run the infrastructures financed by the migrants and constructed by the villagers.
- An appreciation of the importance of the architectural and cultural heritage of the regions.
- Protection of the environment (for example, water management).
- Professional training for local elected officials.
- Modification of relationships with the authorities, learning negotiation skills, based on individual and collective rights.
- Moving from informal to formal structures (banking, registration of small businesses).
- Vocational training for production (creation of agricultural and hand-craft co-operatives), establishment of production norms (quality control and traceability), required to raise the prices of agricultural products.

Assistance to migrants by the NGO is based on a participative process

Most of the training takes place in a context of local democracy. The migrants who finance the village projects are not simply silent partners. Supported by the NGO, they work closely with the villagers through a participative process. The population, structured into village associations (VA), participates beforehand in the investment decisions, to set priorities. Then, with the migrants, they contribute to the "financing" of the infrastructures, in part, by carrying out the work. The VAs then set up management institutions for the infrastructures installed. As a result, they can often accumulate savings that are reinvested in other local development projects. With the support of M&D, they learn also to establish partnerships with other VAs, with the villages and the local

1. For a history of this NGO, see *Marocains de l'autre rive,* de Zakya Daoud, Edition Paris-Méditerranée et Tarik Editions, février 2005.

administration. It is this participative process, supported by the migrants' NGO, that, in the end, assures the good functioning of the infrastructures created: these are thus appropriated by the villagers, who obtain what they have chosen, co-financed and managed. Once the amenities are created with the support of M&D, the infrastructures and the village institutions associated with them continue to function, and this constitutes the best guarantee of the sustainability of the project, and of the beginning of a process maintained by them.

The participative process aims to widen access for the population, in other words, to increase their capabilities

Since it began in 1987, this process, instigated by Moroccan migrants living in France, consisted in organised groups working with the local population, to give them access to electricity, water, roads, schools, healthcare, to the administration, to the village decision-making processes, to community responsibilities, to improvement of agricultural production, and to new income derived from rural tourism. This expansion was carried out through the participation of the villagers and through training leading to increasing qualifications and capabilities. The momentum created at the local level had an impact at the regional level, in obliging government authorities to take charge of the basic infrastructures (electricity supply, roads, health facilities, schools, etc.), which up to then had not been provided by them.

This empirical action fits in with the theory of Amartya Sen, who widened the definition of financial poverty (to live with less than USD 1 dollar a day) to the "deprivation of capabilities": to be poor, is not simply a lack of financial income, but also a lack of capabilities, a lack of access: to the elementary public amenities (water, electricity, roads, etc.), to knowledge and know-how, to the right of public expression, to the right of association, to be respected by the state and others, and the right to work. Sen even includes the right to one's identity and culture.

The activities implemented by M&D in the field follow Sen's concept: the actions of the migrants aimed to show the villagers that they had the capability, by organising themselves collectively, to improve their life conditions, that they could establish new relationships with the administration, that it was possible to persuade the state to bring public amenities to their isolated villages.

This participative action, stimulated by remittances, opens up new avenues for policies on development aid

These activities open up new avenues for policies on development aid. They allow another look on the level of intervention (local level), on the implications of actors (migrants, villagers) guaranteeing the sustainability of the processes. They also allow a different view on the relationships with the local authorities (a learning process of autonomy for the population and the partners), on the importance given to training rather than purchasing equipment, and on the sustainability of the processes under way. They suggest that more attention be paid to civil society and to private initiatives in the receiving countries, as well as in the countries of origin, to decentralised co-operation and to the role of the local authorities.

This active contribution by migrants to the development of their country of origin is supported in France by public policy on co-development

The co-development strategy of the French authorities aims to support the processes instigated by migrants living in France, leading to development of activities in the country of origin. It consists of supporting the associations of migrants that have involved themselves in the long term as development agents beyond the borders. These policies are carried out notably with Mali, Senegal and Morocco: financing of schools, of health centres, the launching of supplementary health insurance, of rural tourism, support for business creation, but also role of the scientific diaspora in the creation of research centres in the country of origin, and the role of the second generation.

CHAPTER 21.

SOME LESSONS FROM THE *AGENCE FRANCAISE DE DEVELOPPEMENT* IN THE FIELD OF CO-DEVELOPMENT

by

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The *Agence Française de Développement* (AFD) (French Development Agency) has a long history of regarding migrants as "stakeholders in the development of their home country". This approach dates back to 1974, when the AFD (then known as the *Caisse Centrale de Coopération Economique*) introduced an occupational training programme for migrant workers volunteering for economic reintegration in highly skilled jobs that were unfilled in their home country. This programme was called the "Training-Reintegration" programme to distinguish it from "training-return" programmes, which seemed ambiguous in terms of the real rationale behind them.

The initial phase of this programme consisted of training instructors in the field of adult occupational training for the Algerian National Institute of Adult Occupational Training. At that time, the AFD was a significant fund provider to this institution. Subsequently, given the success of the programme, the Algerian government wished to extend it to other sectors, such as training for highly skilled workers in domestic firms. The level of training provided was very diverse, ranging from construction superintendent to highly skilled welder, and from foreman to work crew leader.

Other countries, such as Mali, Mauritania, Morocco, Senegal and Tunisia, the expressed the wish also to participate in the programme. Although the number of persons re-employed in some of these countries remained very limited in some cases, some 2 000 applicants were able to participate in the programme, until 1983, when it was terminated.[1]

The first lesson learnt from this experience was to be wary of drawing any overly categorical conclusions in this field. It became clear that migratory trends change extremely rapidly and unpredictably, because of the adaptability and foresight of the populations involved, the political and economic context to which they are responding,

1. "*La formation des travailleurs immigrés en vue de leur reinsertion dans l'économie de leur pays d'origine". Premier bilan du programme 1974-1981* (The training of immigrant workers with a view to their reintegration into the economy of their country of origin. An initial assessment of the programme 1974-1981), Internal AFD document, June 1981.

the positive or negative effects generated by imitative behaviour and the economies or diseconomies of scale produced when the dimension shifts from individual to community projects and from the local to the national or even regional level.

Nevertheless, a number of lessons have been learnt that are still valid and that have been confirmed by the author's current action/research, while others are now completely outdated. Consequently, it seems that a good deal of caution must be exercised in pursuing this strategy and that nothing must be assumed to be known for certain in a field in which knowledge is by definition always changing (not to say "migrating").

This experience, which closely foreshadowed later developments, has unquestionably made the AFD more aware of migration phenomena and their impact on the dynamics of development. In 1999, the AFD seconded one of its staff members to an interministerial task-force devoted to these issues. In 2003, it created an internal working group responsible for analysing the linkages between migration and development and the concrete initiatives to be implemented in the field.

This working group has used three approaches that have enabled it to prepare a policy report for the Directorate-General of the AFD and provide it with a number of concrete recommendations:

Theoretical studies

Three reports have been drafted:

- "Do the AFD's Activities have an Impact on the Economic Causes of Migration?", an internal assessment of the AFD, Régis Marodon, April 2003.
- "Migration and Migration Phenomena: Financial Flows, Mobilisation of Savings and Local Investment", a case study of five countries, commissioned from the French Committee for International Solidarity (CFSI), April 2004, on line on the AFD Internet site.
- "Impacts of the AFD's Projects on Migration Phenomena", a case study on six countries, an assessment external to the AFD commissioned from the CFSI, Aude Penent, April 2004.

A number of internal notes have been drafted by the working party analysing various reports, studies and conferences on these issues.

Working group meetings

A two-day seminar was organised internally with representatives of three migrant communities: Mali, Morocco and Vietnam, April 2004.

Members of the working group have participated in various meetings and workshops with migrant communities, in particular in co-operation with the Fédération des Organisations Issues de la Migration (FORIM) (Federation of Migrants' Organisations).

Experience in the field

Although they are still few in number, these activities are real and they provide a testing ground and show the capacity of the AFD to address these issues concretely:

- An on-going programme in Morocco (see below).
- A programme currently being launched with the *Crédit Mutuel* bank in Senegal.

- Support for the development of projects carried out directly by migrants with the support of other institutions (*e.g.* mutual health associations in Mali).

The initial conclusion that has been drawn from this work has prompted an attempt to avoid constructing a theoretically perfect system based on ideas that, however well-meaning and relevant they might appear, would have little chance of producing results, since they are not pragmatic.

It became clear that any programme involving migrants must respond to a range of types of demand. The programme should meet the different types of demand that arise and not presume to know in advance what they are.

Starting from different types of demand

The starting point must be the realisation that migrants are the key players and that they determine the demand

It is essential to bear in mind that each case of migration is first and foremost an individual story. All initiatives taken to support migrants must take into account the fact that they all have their own personal history.

The AFD working group members have observed that they have all had to face migratory phenomena at some point in the course of their general work, as was shown by the initial Marodon report. They therefore have practical experience in this field. However, the approaches used, as valid as they may be, remain incomplete with respect to this issue. No systematic approach has enabled them to gain a full overview of the situation. This is why it was thought necessary to commission a consultant to carry out a comprehensive study that has provided some initial answers to some basic questions.

The first question, then, is to determine what is the real demand on the part of migrants. This means initially identifying those migrants who are willing and able to invest in their home country.

What is the real situation regarding migrants and what they represent.

Although no attempt could be made to carry out complete studies, it was necessary to show the magnitude of migrations in some of the countries in which the AFD is actively involved. This made it possible to confirm the rapid and unpredictable nature of these trends. These migrations are of a highly informal and clandestine nature, which makes it difficult to obtain reliable data. This being the case, any attempt to achieve real accuracy seems relatively futile, and there is reason to be somewhat sceptical about certain studies devoted to this subject that present general rules – illustrated by charts, complex econometric formulae and sophisticated statistics – the practical value of which seems to be highly dubious.

Rather than trying to carry out detailed studies, which are often outdated as soon as they have been completed because of the fact that data are lacking, unreliable or constantly changing, the AFD has sought to determine orders of magnitude and above all trends from one year to the next, provided that these can be established on the same basis. The data gathered are renewed and updated as often as possible, and they are always collected in parallel with concrete initiatives. It is true that it has been found necessary to include migration phenomena in our evaluation system for all our programmes and projects.

To establish this first general set of data, the working group has focused on five countries (Comoros, Mali, Morocco, Senegal and Vietnam). Mozambique was added in the third report to include South/South migrations, which the AFD, as a development institution, considers are just as crucial as South/North migrations.

The second question raised by the report commissioned from the CFSI is: who are the migrants who are interested in investing in their home country?

Who are the migrants who are interested in investing in their home country?

All migrants are interested, although some are more interested than others. However, they have very different sectors of interest. Between building a retirement home and creating an SME, there is a wide range of possible areas for investment. Beyond productive activities *per se*, the sectors of interest are in the social, cultural and economic fields. In the light of this diversity, it seemed useful to take stock of some successful and recognised economic initiatives. There are many of these worldwide that can serve as benchmarks.

Among some of the examples examined, the following can be mentioned:

- The programme of the city of Montreuil with the Yelimane Region, Mali.
- ROCHAD (Canada-Haiti).
- The public-private partnership of the Haitian community of New York.
- The Financial Co-operative for the Development of North-South Economic Solidarity (COFIDES).
- The IntEnt Foundation for Morocco in the Netherlands.
- The *Nacional Financeria* in Mexico.

The issue of remittances and their impact is an important field of investigation in itself, which has also been addressed in order to assess the investment potential and above all to examine its trend across countries from one year to the next.

For the AFD, the next step is to identify the most promising and significant practices and methodologies. The approach here should not be to invent or duplicate these exactly, but rather to build on what already exists and try to organise it more effectively and support and reproduce it. In this regard there much to learn from migrants, who can teach the AFD a great deal through the dynamism, creativity and ingenuity that they show in the different ways in which they use their own savings.

What is the real scope of these innovations among the migrant population?

The focus must not be upon the real or presumed representativeness of the migrants or their associations who are encountered in these initiatives. It is extremely difficult, if not impossible, to achieve a systematic approach to each diaspora. Once again, what is important is to provide support to the most dynamic representatives.

If the AFD were able to contribute to supporting 10%, or even 5% of these populations, this would already have an exceptional leverage effect on the relatively significant amounts involved. On the scale of some countries, and even more of some regions, the impact would be considerable. The strong tendency of migrants to copy each others' behaviour should also emphasised, in the good sense of the term, and their ability to replicate initiatives that

work should be highlighted. This means that successful initiatives carried out by a small number of people can then multiply significantly on their own.

On the other hand, AFD is not seeking to support initiatives that are too innovative. These types of schemes require a great deal of energy and determination, which is not the role of this type of institution, especially if the results expected may not be proportional to the effort expended. Our role is more to support natural trends already under way, in order to try to promote positive cumulative effects.

Consequently, the objectives are to enable the diverse demand of individuals and families to be expressed collectively, to help villages that wish to address their social needs to realise their plans through productive investments, and to expand the range of projects from support for the construction of mosques to the creation of SMEs. In this regard, it is necessary to promote positive, mutually reinforcing synergies among all migrants, from semi-skilled workers to engineering school graduates (who are a real presence among Moroccan emigrants).

What do these migrants interested in projects really want?

Once these populations and their on-going projects have been better identified, it is important to be sensitive to their real needs. Many of their initiatives do not necessarily require our assistance.

A government agency such as AFD must engage in a challenging cultural revolution that will enable it genuinely to listen to what migrants have to say and to identify the specific needs that they express. What they have to say is a mixture of subjective and objective elements. Migrants express many types of demand simultaneously: the desire to gain control of their future and open up to modern life, to be recognised as reliable partners and entrepreneurs, and active promoters of development, to adapt their traditions and make their decision-making methods understood, to be empowered, to be given the time to negotiate and yet have a rapid response to their needs, to be recognised as partners in the North, but also in their home countries in the South, etc. Consequently, steps must be taken to develop this listening ability, which is institutionally complex to organise. This process will be made all the more difficult by the fact that all these efforts will at best only make it possible to have an approximate "snapshot" of these situations, since they are by nature constantly changing in relation to migration as a whole.

The final difficulty is that all demand on the part of migrants, even when it is valid and clearly identified, cannot and should not necessarily be met. There are other parameters that are just as important that must be taken into account. This is a fact that is not always obvious from the standpoint of the immigrants involved.

The importance of having the approval and support of the authorities of the country of origin

The approval and support of the authorities of the country of origin are crucial, and not only because AFD is the French public institution responsible for French aid. Obviously, the local public authorities must be actively involved in supporting their emigrant populations. This is not only because it would be out of the question to carry out programmes that have not been formally approved by these authorities, particularly in the field of emigration, which is a very sensitive political issue, but also because they are in a position to facilitate programmes, even though they may not always be a major active

partner. They can provide support in many ways, through legislation, host organisations, training, information, etc.

In this regard, there has been a major shift on the part of home countries in the past three or four years. The political, economic and social role of migrants is now officially recognised, and many partner States have created appropriate administrative bodies in this field (for some time Morocco has had particularly effective initiatives in this area). However the fact remains that the attitudes of individual governments vary quite considerably. Some have concluded official agreements in this field. Programmes are sometimes implemented in close co-operation with the diplomatic authorities. Some states are even reaching out to their emigrant population in order to encourage them to become involved in these kinds of programmes. The AFD sometimes participates in these initiatives, which enables it to be more fully informed about these programmes and to step up its level of commitment. In such cases, there is genuine agreement, even if it is not always formalised in a written document, and most importantly there is active co-operation with embassies and consulates.

Exploratory work is also necessary

It is also necessary to undertake exploratory work, with the support of local authorities, in order to identify and include other local and national institutions and administrations that can promote these processes in positive ways. They can do much to support, publicise, promote and even initiate, replicate and extend certain initiatives themselves.

Various public consultative bodies become involved relatively naturally, such as joint labour boards, migrants' clubs, business forums, forums of associations, decentralised co-operation programmes, etc. Local governments provide an interesting field for co-operation between local authorities in the North where immigrant populations live and their home area in the South. The AFD is in contact with a number of these. Other bodies can be involved on a more voluntary basis, in particular financial institutions such as banks, guarantee funds, credit institutions, retirement funds and remittance-sending institutions (Post Office, Western Union, etc.).

Lastly, it seems necessary to establish contacts with other funding providers and international bodies, such as the European Commission, European bilateral donors, etc. Strong co-operation between all these bodies is the only means of responding as adequately as possible to migrants' needs without dispersion or duplication (which justifies the AFD's somewhat exceptional participation in seminars such as this one).

Consequently, one element of AFD strategic policy is to become involved in the decision-making chain and environment: from migrants to ministers, from business executives to associations, from bankers to journalists. This is also one of the important lessons that has been drawn from experience, *i.e.* that the effort must be made to communicate about these projects, even if concrete initiatives still remain quite modest, for this exchange makes it possible to move forward and create the indispensable synergies with other partners. This also explains why the AFD produced, for example, a documentary on the story of a Malian migrant who promoted measures to combat desertification in his home village. The AFD is also planning to organise a thematic day with migrants in 2005. It will continue its theoretical work and the publication of studies. This communication is aimed at facilitating concrete practice and initiatives.

Even before this initial work had been completed, concrete initiatives had been implemented

Fortunately, it was possible to establish the co-development programme in Morocco on the basis of a clearly identified demand.

The first segment of this programme was initiated at the request of a Franco-Moroccan association, "Migration and Development" (M&D). This non-governmental organisation (NGO) has longstanding and effective local experience in enabling migrants to use their potential to help their home villages. Its request was based on its practical knowledge in the field.

The project is aimed at promoting rural tourism in high emigration areas in order to reactivate productive and profitable economic activities for the populations who have remained at home. The objective is to support the creation and management of guest houses (*gîtes ruraux*) and guest rooms (*chambres d'hôtes*) in home villages through investments made by migrants.

Although the idea appears attractive in itself, it was nevertheless necessary to make certain that the project was valid and feasible. Rural tourism has met with many failures in other countries. It was also necessary to make sure that this initiative was in line with national policies and had the full approval of the relevant Moroccan authorities. Various meetings with government administrations made it possible to ensure that this was the case.

Next, it was necessary to define the appropriate product (guest houses and guest rooms) and the specifications for realising the project (location, design, safety standards, security, etc.). In this experimental phase, it was proposed to support the construction of 18 guest houses (at an average cost of EUR 50 000) and 21 guest rooms (average cost of EUR 5 000), financed according to the principle of a one-third subsidy and a two-thirds personal contribution by migrants. Originally, one-third of the amount was to have been financed through bank loans, but the migrants' personal contributions were large enough to cover this amount and they said that they preferred not to owe money to banks.

Steps were also taken to verify whether there really was a potential tourism market and an interested clientele. Contacts were made with local tour operators for this purpose. However, the potential clientele was above all identified (and canvassed) by the M&D association itself. This potential market must avoid the risk of being insufficient or of too much competition. The role of village associations is crucial in this regard. The overall project seemed to be sound.

A number of meetings in the field made it possible to ensure that there was real local demand for the project in villages and within the region. The concern to ensure that the project was acceptable from an economic, ethical and aesthetic standpoint was defined in a comprehensive policy that was recognised and approved by the local authorities.

The next step was to identify a Moroccan body to act as an intermediary between the AFD and migrants and villagers. The Agency for Social Development (ADS) was selected, which is entirely appropriate for carrying out this task, and has in fact become very actively involved in carrying out this programme. However, it is already clear that it would be difficult for this agency to continue to play this role after the current number of guest houses have been completed because of its other responsibilities. It will either be necessary to identify other intermediaries or else ADS will have to increase its staff and capacities. It should be pointed out that the co-operation between it and the M&D

association is excellent. Consequently, finding the most appropriate intermediaries is a key aspect for the success of this kind of programme.

In early 2005, some of these houses are now being built of which several will be operational by the summer of 2005. The guest room component seems to have proven less popular, and it is now planned to devote the entirety of the funds available to guest houses and to give up (perhaps only temporarily) the idea of guest rooms.

The interest of this programme obviously resides in its long-term nature. Its aim is not to promote a few isolated investments, but to ensure a regular and balanced flow of investment and to transcend experimental, one-off projects in order to promote a genuine rural tourism policy in the specific region and the country as a whole. To achieve this, it is essential to secure additional financing and, since these are profit-generating projects, to involve banking institutions. Contacts have been established with the Moroccan *Crédit Agricole* bank, which seems very willing to consider this possibility.

A final lesson that was learnt from this segment of the programme was that it required very careful and active monitoring by the AFD. This requires time and expertise, and is therefore costly. In future, if this programme is to be expanded, its management would have to be delegated to an *ad hoc* institution paid for this purpose.

The second segment of the programme consists of meeting another demand from migrants clearly identified at the outset: the creation of small and medium-sized enterprises (SME) in Morocco.

Moroccans living abroad had been involved in these types of investments long before this programme was established. They already have a good deal of experience in this field, but the results obtained have been very uneven.

As soon as the idea of co-development with Morocco began to take shape, the French authorities started receiving spontaneous requests in this sector. These came through various channels in France and Morocco, such as associations, consulting firms, chambers of commerce, decentralised authorities, etc. These requests were sufficiently numerous to make it possible to establish a rough typology and obtain a general picture of the needs of Moroccan migrants in this field.

Among these requests, there seemed to be a fairly specific demand for technologically innovative firms. Many Moroccans abroad have acquired a high level of technological skills and would like to be able to reinvest them in Morocco. This is a particularly suitable sector for development in that it would not distort local competition and would not be competing with the informal sector either, with all the risks that this kind of competition would have entailed.

On the basis of the applications received, an initial estimate was made of the needs and the amount of financing required. It was determined that projects could promote the creation of high-technology SMEs, with an initial investment ranging between EUR 200-250 000 (one-third personal contribution, one-third subsidy and one-third funded by the Sindibad Fund). The Sindibad SME Start-up Fund was designated as the Moroccan operator for the project.

The first SMEs are being set up at this time. The local authorities are obviously very interested in this project for a variety of reasons: productive investment, modernisation of the sector and technological progress, job creation, etc.

Contacts have been made with all Moroccan banks, both in Morocco and with their branches in France. Some French banks have also been contacted. It is regrettable that they have only shown very mild interest in this project. They generally think that the risk is too great with regard to this type of entrepreneur and that the monitoring costs are too high. It is to be hoped that the experience under way will lead them to change their minds and show greater interest in these investors in the future.

The Sindibad Start-up Fund is giving full satisfaction in managing the projects. However, it would face the same problem as ADS if this programme were to grow, for it would rapidly be saturated if the number of applications increased significantly.

The financing of the two programmes

The financing of the projects is based above all on the contributions of Moroccans living abroad. They must contribute at least one-third of the basic investment, and even two-thirds in case of the rural tourism projects. What might have seemed to be an obstacle has ultimately not proven to be one in practice. More surprising still, there is every reason to believe that the subsidy provided by the AFD has more of a psychological than a material impact. In other words, it represents a guarantee that reassures Moroccan migrants that this programme is really serious more than as an indispensable financial contribution. The role and contribution of the SME Start-up Fund is also crucial.

For a programme evaluated at total of EUR 3.8 million, the subsidy obtained by AFD from the European Commission (Directorate-General for Justice, Freedom and Security) amounts to EUR 1.5 million. The negotiations with this DG were long and painstaking, for the Commission's administrative and financial rules are complex and stringent. However, thanks to the openness shown by its administrators, the negotiations were concluded successfully.

It is most regrettable that the response of the banking system (both French and Moroccan) was so disappointing. It is to be hoped that if these programmes achieve significant positive results, their support will be forthcoming in the future.

How to make further progress?

This co-development programme in Morocco is still a pilot project. It is limited in terms of the number of Moroccan migrants involved and the volume of investment. In its present state, it will have no impact in macroeconomic terms.

The organisations concerned, which have unquestionably shown themselves to be competent and effective in organising these projects, have devoted a great deal of energy to this work – perhaps too much for this to be sustainable much longer. This is true for ADS and Sindibad and for the Migration and Development Association, the Rabat agency and the AFD itself. This is very time-consuming and demanding work and changes will undoubtedly have to be made if the programme is to be extended successfully.

The success of these initial segments necessarily prompts us to continue and extend them. However, if they are to go beyond being pilot programmes and become significant, by what factor should they be expanded: by a factor of 10? 20? 100? And how will they be financed? How can the banking sector be motivated? (through lines of credit? lines of guarantee?) Should the programme be restricted to certain regions or be extended throughout Morocco? Are there other sectors of intervention that can be identified besides

SMEs and rural tourism? Should the current intermediaries be developed or should new ones be identified?

What can be done to develop long-term co-operative financing, since the European Commission will apparently be unable to continue its contribution? How can other donors, from Europe or elsewhere, be persuaded to participate? Should this be in partnership with the AFD or directly with Moroccan partners?

In any event, new technical, administrative and financial mechanisms will have to be adapted if these questions are to be addressed.

To make further progress would also mean replicating this programme in other countries, no doubt initially with neighbouring States (Algeria, Tunisia).

Modesty and prudence must remain the bywords of the AFD as they pursue the future of this programme. The administrative players engaged in this policy must, much like the migrants who support these projects, have a certain kind of dedication in order to remain attentive to migrants' needs, to reappraise their own efforts and to innovate within existing structures. It is only because such people have been involved in this programme that it has been able to exist and develop.

CONCLUSIONS

by

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The focus of this conference has been on the links between migrants, remittances and the economic development of sending countries. It provided an overview of the current magnitude of remittances, the characteristics of the migrants in question and the transmission channels used to send their savings back to their countries of origin. Much attention was paid to the impacts of remittances in terms of supporting living standards and economic development in the countries of origin.

The conference has benefited from the presentations of a rich variety of case studies, covering the experiences of OECD and non-OECD countries alike. Our discussions also benefited greatly from the different perspectives brought to the table by ministers, ambassadors, policy makers from different ministries, representatives from central and private banks, international organisations, non-governmental organisations and researchers. The exchanges over the past three days should thus contribute to improving our common understanding of the key issues surrounding remittances and economic development in the countries of origin, and in this way, help to reinforce international co-operation between migrant-sending and receiving countries.

Part of the leitmotif for this conference comes from the stylised fact that the global total of remittances in recent years has exceeded official development aid flows from OECD to non-OECD countries. This has led some observers to argue that remittances could play a greater role in stimulating productive investments in the countries of origin, thereby spurring economic and social development.

However, the conference has revealed that this argument, despite its superficial attraction, is often a dead end. We were reminded, time and again, that remittances are *private* transfers and that the savings involved belong to the migrants and their families, who also decide on their allocation. Now governments may offer incentives to migrants to increase the volume of remittances and to influence the uses to which they are put in the countries of origin. We have heard of many attempts to do this which have been unsuccessful because they have failed to recognise the primacy of individual *choice* is this area. We have also been presented with some interesting good practices which have sought to harness the virtues of choice, trust and networks, in order to put remittances to good use for individuals, their families, and economic and social development at large.

It would be presumptuous of me to seek to draw strong conclusions immediately from our discussions. We need much more time to reflect on them. Instead, I propose to

highlight some broad policy recommendations which seem to have been received rather broad support. I will also suggest some possible follow-up to this conference.

Policy recommendations

First and foremost, there is no substitute for sound macroeconomic policies, good governance, a sound banking system, respect for property rights, and an outward-oriented trade and foreign direct investment strategy (FDI). The state has a primordial role to play in establishing these key building-blocks for economic development, supported by the international community. This is not the responsibility of the migrants. Each country has primary responsibility for its own economic and social development and progress.

Remittances are neither a substitute for official development assistance or FDI flows. I must emphasise that countries have made commitments in the Millennium Declaration and the Monterrey Declaration, and that the international environment is very important both for developed and developing countries. Thus, we should not forget the importance of trade. Turning more specifically to the issue of remittances, I would highlight the following recommendations:

We have learned that we must reconsider the artificial distinction between "productive" and "non-productive" uses of remittances. Remittances are used to reduce household poverty and satisfy basic needs, but also to increase investment in health and education, *i.e.* to improve investment in human capital in the countries of origin. There is an important gender dimension to such human capital investments.

Policy should facilitate, rather than impose, channels or uses of remittances, notably through a sound banking system.

- Distribute information widely on remittance channels and opportunities for investments. Create one-stop shops, in order to provide information on all stages of migration and remittance.
- Support and accompany those migrants who wish to engage in entrepreneurial activities. If special incentive schemes are put in place, they should be designed for everybody, and be open to migrants and non-migrants alike.
- Recognise the potential links between remittances and social capital (proxied by trust and social networks). Community initiatives such as the *tres por uno* (three for one) scheme in Mexico, and the examples at local and regional level in Morocco as well as in Mali and Senegal, may provide some interesting lessons for other countries to adapt to their own circumstances.
- Introduce measures to reduce transaction costs associated with transfers and enhance transparency. We heard many examples of how greater competition between banking and other money-transfer-saving intermediaries, combined with the use of information and communication technology, have contributed to reducing formal fees and to quicken the process of remittance. This is less apparent with respect to transparency, as it is often unclear which exchange rates are used for the transactions.

Further steps

As I noted in my opening statement, 2005 is a very important year for global decisions to ensure that we can achieve the Millenium Development Goals by 2015. At the OECD Ministerial Meeting next May, there will be a major focus on development issues, including the Doha Development Agenda. Inevitably, the topic of remittances will figure in this discussion and I will seek to ensure that the messages from this conference are reflected in the minister's discussion. The Ministerial Meeting will be held back-to-back with the OECD Forum, which this year will have a major focus on development issues and where remittances should be discussed. The Forum 2005 Fuelling the Future: Security, Stability, Development is a major civil society event, and I hope that many of you may be able to attend it.

The OECD has a long experience of migration issues, including the role that remittances have played in the development of sending countries, such as Greece, Italy, Portugal, Spain and more recently Mexico and Turkey. It is important to continue to share these experiences with non-member economies, to optimise the use of the money transferred by emigrants, to explore ways of increasing the use of the new technologies in order to reduce further costs of transfers and help to modernise the formal fund transfer system, as illustrated by the experience of Morocco, the Philippines and Portugal.

Particular attention could be given to some social aspects of development, and in particular the impact of remittances on the reduction of poverty and the improvement of education and healthcare. The OECD will now reflect on the lessons drawn from this conference and consider which of these further steps is best placed to follow up in co-operation with member and non-member economies, as well as other interested international and inter-governmental organisations.

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The Development Dimension

Migration, Remittances and Development

This publication presents the current situation with regard to the magnitude of migrants' remittances to their countries of origin. In 2004, remittances exceeded official development aid in several emigration countries: they totalled USD 126 billion according to IMF estimates. Can remittances stimulate productive investments in the countries of origin? Can they spur economic and social development?

The impact of remittances on the economic development of sending countries is examined. The book surveys the channels used to collect these funds, the role of banking systems and other financial institutions, and the introduction of new technologies and their impact on fund collection, how the funds are transferred; and how to reduce the costs. Focus is also placed on the different ways in which migrants themselves participate, together with non-governmental organisations, host countries and sending countries, to open up new avenues for policies on development aid and co-development. The direct role that migrants can play at the local level is highlighted.

Several countries and regions are illustrated: Southern European countries, Mexico, Turkey, North African and sub-Saharan African countries, the Philippines and some Latin American countries.

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