

Leveraging and tapping the Diaspora and remittances for development

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ABSTRACT

This paper explores the cross-cutting issues surrounding remittances and leveraging or mobilizing the Diaspora, as potential partners and catalysts of national development. It highlights trends in remittance flow and behavior of remitters and the arguments for channeling remittances for development, economic stability and to reduce poverty. It also addresses the drawbacks and pitfalls in relying on or even interfering with these private funds and personal freedoms to use earnings in the way migrants' desire. The writers further explore the ethical, social, legal and economic arguments for regulating or interfering with remittance flow, volume and cause, for the purpose of development in two-sense: (i) personal development and strengthening family budget; and / or (ii) Investment and national economic development.

This is followed by a discussion on the policies and operational measures, such as incentive schemes, mechanisms, legal, regulatory and institutional reforms, which can be undertaken by Governments to enhance the volume and value of remittances. They require a multifaceted and multiple stakeholder / client-based approach, co-operation, participation and co-ordination among Governments and other actors, such as Diaspora / migrants, recipients, international organizations (IOs), non-governmental organizations (NGOs) and the corporate sector. The role of stakeholders must not be trivialized as they are likely to have a common stake in the success of these measures. Their crucial roles are also explored in this paper. Case studies, such as the success of Madeira (a region in Portugal), whose emigrants "lift the island out of economic crisis through private investments", and examples of policies and measures that have been initiated by Governments that have worked and others that were not as successful or plainly failed, are examined. Such programs include Mexico's matching funds program "Three-for-One-deal". The writers also highlight the significance of this area to the international development architecture, development in general, and the rule of law.

As the writers assert, the Diaspora and remittances are being channeled for development, as an alternative source of private development finance, to reduce poverty in developing countries, thereby, complementing official development assistance.

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INTRODUCTION

(Nigel Gayle, Jamaica)

The international development architecture is dynamic. Its actors and approaches are constantly changing. International development assistance is concurrently undergoing a triple revolution in diversification of goods to pursue, stakeholders/actors/players, and instruments used by diverse actors in global development agencies to achieve broader range of policy objectives. There is a new philosophy in international development, that is, to rewrite the rules of game to sustainably reduced poverty and tap into robust financial flow of all types. This is a need for diversification of financial sources. It goes beyond aid, to modernizing foreign assistance and multilateralism.

The Official Development Assistance (ODA) is proving to be inadequate as a source of development finance. The current Official Development Assistance (ODA) - global standard of allocating 0.7 % of developed countries GDP to ODA - is dying or becoming less relevant as a tool of action, unless it changes its mandate to meet current global policy reality. In 2010, alternative source of development finance totaled \$575 billion, which was 82% of developed world dealings with developing countries. This reality signifies the need for convergence of diversified actors on the emerging global architecture and to tap into and channel alternative source of development finance. Alternate source of finance includes global philanthropy, remittances and private capital.²

The role and needs of the Diaspora are weighing heavily on the international agenda. As potential partners and catalytic agents for development, they are helping to shape the architecture and the policies and programs are being designed around their needs and not them trying to fit within the agenda. International migration can generate considerable welfare gains for migrants, as well as countries of origin and destination. The benefits to origin countries are realized mostly through remittances. Viewed on local level though, there are intra-country migration and remittances. This is where nationals migrate (move within country) from one region of the country to another. A classic example is the movement of nationals from rural to urban areas. These "local migrants", then remit or send money back to the rural areas to their families. International remittances however, are personal /private flows or money from migrants to their friends and families back home. These private flows go directly to households with no intermediaries, except the agencies, formal or informal, transferring the funds.

Remittances are person-to-person flows, well targeted to the needs of the recipients, who are often poor, and do not typically suffer from the governance problems that may be associated with official aid flows. Unlike ODA, the decisions are made by individuals and families and matter rests primarily within private domain. The main economic development impact of remittances depends on how the resources are used: for consumption, investment or both and both types of remittances, international and intra-country, can potentially impact development of a home country.³

² Jean-Michel Severino and Olivier Ray, *The End of ODA: Death and Rebirth of a Global Public Policy* (2009); and Hudson Institute, *Index on Global Philanthropy and Remittances* (2012).

³ Dilip Ratha and Sanket Mohapatra, *Increasing the Macroeconomic Impact of Remittances on Development*, Development Prospects Group, The World Bank, Washington D.C. 20433 November 26, 2007, p.1; and IFAD, *Remittances: Sending money home*, Factsheet (2009) available at <<http://www.ifad.org/pub/factsheet/remittances/e.pdf>(05/04/13)>, p. 1.

Remittances are non-traditional, but important sources of private external finance for developing countries, with remittances being larger than official development assistance, foreign direct investment and portfolio flows in many countries, combined. Remittance is thus, a powerful force for sustainable economic development, which includes the alleviation of poverty in less affluent or developing countries. This also explains the growing significance of remittance compared to ODA and the need to mobilize or leverage the Diaspora and their remitted earnings for development. The Diaspora is seen as agents of country development.

In highlighting the specific figures and statistics to justify this growing importance of remittances to the international development architecture, recorded remittances sent home by migrants from developing countries reached \$240 billion in 2007; more than twice the level in 2002; and a \$19 billion increase from the previous year. The reality of unrecorded flows of remittances means that the real levels of remittances through formal and informal channels is even larger. In many poor countries, they are the largest source of external financing. The doubling of recorded remittances over the last five years may be viewed as a result of better measurement of flows, increased scrutiny since the terrorist attacks of September 2001 and to reduction in remittance costs. Remittances are more evenly distributed across developing countries than private capital flows. In 2007, the top three recipients of remittances—India, China, and Mexico—each received over \$25 billion. But smaller and poorer countries tend to receive relatively larger remittances when the size of the economy is taken into account. Remittances as a share of GDP amounted to 3.6 percent of GDP in low-income countries in 2006 compared to 1.7 percent in middle-income countries. Remittances were more than twice the level of official development assistance (ODA) flows to developing countries in 2007⁴. Even more interesting, is the statistics that in 2009, remittances were equal to three times net ODA to developing countries and were projected to cumulatively surpass US\$1.5 trillion by 2014. Remittances to developing countries surpass foreign direct investment and development assistance combined with over US\$300 billion a year.⁵

Remittance as a topic of discussion is also significant to the rule of law and development finance in that, it concerns the issue of how to channel it through formal mechanisms that are accessible and attractive to consumers, in a manner to increase financial transparency and promote the inclusiveness of the poor rural population, mainly 'ostracized', 'unconnected' to the formal financial system or the "unbanked". Normally, cheques, bank transfers and dedicated services offered by Western Union, MoneyGram and Vigo, are the transfer mechanisms in the formal financial system for remittances. Mainstream financial remittance systems and services are yet to create mechanisms to tap all potential clients. The provision of downstream remittance services is thus a profitable market opportunity for financial institutions. In the context of development finance, the question of facilitating healthy competition to generate better remittance services for poor customers who often live in rural areas is central. In this context, some emerging good practices in remittances, which observe the rule of law promote: (a) greater availability and access to remittances, especially in rural areas;(b) more options for linking remittance services and access to other financial services such as savings, credit and insurance;(c) solutions that minimize transaction costs; and (d) transparent service fees and costs in remittance transactions (e.g. losses on foreign exchange).⁶

⁴ *Id.* Dilip Ratha and Sanket Mohapatra, at pp. 1-2.

⁵ IFAD, *Remittances: Sending money home*, Factsheet (2009) available at <<http://www.ifad.org/pub/factsheet/remittances/e.pdf>(05/04/13)>, p. 3.

⁶ IFAD (2006), *Remittances: strategic and operational considerations* - Annex to IFAD Decision Tools for Rural Finance, p. 14. Document available at [http://www.ifad.org/ruralfinance/pub/remittances.pdf\(05/04/2013\)](http://www.ifad.org/ruralfinance/pub/remittances.pdf(05/04/2013)).

*A general theme motivating much of the research on immigrant remittances is that, once better understood, perhaps they then can either be shown to promote development on their own, or they can be channeled into productive investment by wise policies.*⁷ This statement ignites the questions: (i) should it really matter what motivates the Diaspora when sending funds home, given the overwhelming statistical trend that the remittance sector is one of the largest and can become a major source of private development finance? (ii) Is this not even more true, when in any event, Governments should create the necessary legal, regulatory and institutional framework and environments to facilitate remittance flow, volume and value? or (iii) Should the ethical and possible ‘absence of market imperfections’ arguments - to allow the Diaspora to send money as they please and for whatever purpose they want, be so overwhelmingly strong, to leave this sector unregulated and live with the hope that the Diaspora will become philanthropic for development cause (eg. collective remittances)?

The concept of development weighs heavily on one’s perspective on the matter. Amartya Sen’s view of “*Development as freedoms*”⁸ is embraced for its holistic socio-economic perspective, viewing freedom as constitutive of development, having a “transforming impact”. Migrant remittances are the most tangible and perhaps the least controversial link between migration and development. Both intra-country and international remittances have potential development impacts and will determine the type of policies implemented by Government and the level of sustained or risky reliance that can be placed on them. Policies need to be strategic, constantly re-evaluated and reliable data should be collected on their impact on the country’s development. Consequently, a decision can be taken on a national basis as to whether and / or when to regulate remittances and how to mobilize the Diaspora as agents of national investment. The reality is that, initial reliance and dependence on international remittance for development might become less relevant in the long-run, for sustainable development and in such instances, intra-country investment / remittances might prove more useful. As a potential explanation, an important condition of the stability and counter-cyclicity of remittance inflows is that, the funds were intended to supply household budget, especially to level consumption in the remittance-recipient country. Thus, the more remittances assume the role of development capital, the more sensitive they tend to become to changes in the business environment in the home country. When remittance flows are perceived as stable and predictable, households are likely to spend rather than invest, thereby weakening its role as development capital.⁹

In illustrating, an autonomous region in Portugal, Madeira Island, shows that, in the absence of market imperfections of inequality, poverty and lack of competition, there might even come a time when regulating remittances for development might not be prudent. Madeira illustrates that where no imperfections exist, it might be best to not regulate or interfere in the market at all. Madeira worked itself out of poverty, more or less without Government intervention in market. With a booming emigration in the 1960s and 70s, after 1974 revolution, Portuguese currency lost its value and emigrants returned and invested their monies in this island. They built houses, shops and opened hotels. With these private investments, the island recovered its economy. Interestingly, during the period of mass emigration, the Government still considered the Diaspora, as clients and a vital part of the country’s development agenda. Madeira was developed through remittances and is now considered socio-economically stable and a great investment climate.¹⁰

⁷ Ralph Chami, Connel Fullenkamp and Samir Jahjah , *Are Immigrant Remittance Flows a Source of Capital for Development?* IMF Staff Papers, Vol. 52, No. 1 (2005), pp. 55-81, Palgrave Macmillan Journals.

⁸ Amartya Sen, *Development as Freedom* (1st edn Oxford University Press, 1999), pp. 3 – 53.

⁹ Kalule Wamala Stephen, Thesis on : *Impact of Migrant Workers’ Remittances on East African Economies, September 2010*, Makerere University.

¹⁰ PWC, “*Europe’s best kept secret: Individual Taxation-Why Portugal should be your top tax*”

There are mix views on the growth effect of remittances and impact, and as to whether remittance should be counted as development finance or is too unpredictable and unquantifiable that it should be seen as private and personally driven (not intended to serve as a source of development). The economic analysis indicates that, despite being private in nature, remittance potentially has micro and macroeconomic development effects. On the micro-economic scale, remittances: (a) make an important welfare contribution to the recipient household and often provide emergency stopgap monies; (b) tend to increase during an economic downturn or following natural disasters;(c) improve the standard of living through funds that are typically invested in human and social capital and necessities, such as education, nutrition and healthcare and in building assets (e.g., real estate, business, savings);and (d) generate ripple effects that impact the extended family and community beyond the receiving households, due in part to the increased consumption. Likewise, in macroeconomic terms, remittances: (i) provide a stable flow of funds that is often counter-cyclical on recipient country: they increase during times of economic downturn;(ii) offer an important source of foreign exchange for many countries; and (iii) exert upward pressure on the value of the local currency in cases of high inflows of remittances¹¹. The central proposition of his paper is therefore, *despite its unquantifiable, unpredictable, vulnerability and unethical challenges, the multifaceted approach and efforts toward channeling the Diaspora and remittances for development are worth the potential impact - as an alternative source of private development finance to reduce poverty in developing countries, albeit not as a substitute for official development assistance or efforts, but to complement them.*

There are six (6) chapters in this paper. **Chapter 1** is the introduction with background information. It illustrates the relevance of the topic to the international development architecture, development and the rule of law. **Chapter 2** examines the meaning of leveraging the Diaspora, remittance and types, the concept of development and the cost of migration. It also outlines challenges with the Diaspora and the effects of remittances. In **chapter 3**, the writer explores the actors / stakeholders, including International Organizations and Governments and their role. **Chapter 4** explores policy and operational measures to enhance the volume and value of remittances, whether intra-country or international. These include proposals for upgrading regulatory and institutional framework for ease of access to remit and mechanisms to mobilize the Diaspora and incentivize remittance transfers for development and personal use. The writer further examines the appropriate macroeconomic policies that have been developed to respond to large remittance flow. The recommendations, mechanisms and policy initiatives discussed, are in response to stated barriers/challenges faced by remitters and other actors. These policies are brought to life by case examples of government incentive schemes and initiatives worldwide, including from Africa, Asia, Europe, Caribbean and Latin America. **Chapter 5** focuses on the institutions that are necessary to facilitate new or reformed regulatory framework and initiatives to channel remittance for development, with illustrations. The relevant legal sources of guidance in this effort are also provided. The paper concludes with **Chapter 6**.

choice”, pp. 2-4. Article is available at website:
<with almost no need for external finance.

¹¹ IFAD (2006), *Remittances: strategic and operational considerations - Annex to IFAD Decision Tools for Rural Finance*, p. 12. Document available at [http://www.ifad.org/ruralfinance/pub/remittances.pdf\(05/04/2013\)](http://www.ifad.org/ruralfinance/pub/remittances.pdf(05/04/2013)).

CHAPTER 2

(Pierre Murekezi, Rwanda)

LEVERAGING THE DIASPORA

To leverage the diaspora means to mobilize them for a cause. Migrants' associations in host countries are now playing an increasingly active role in financing projects to improve living conditions and promote development in their home communities in different regions of the world. In Africa, this has been part of a long tradition of community and ethnic solidarity. Condé and others (1986)¹² noted that a significant proportion of African migrants' savings accumulated in France was channeled through migrant associations to finance community assets in the village of origin, including construction of schools and health facilities. A striking feature of the new initiatives is that migrant associations are mobilizing funds from external sources in the host country leveraging their own, collectively pooled, remittances to support community-level development projects. These activities can range from the supply of consumer goods and purchase of farming equipment to income-generating business ventures. And, sometimes migrants from different neighboring countries, but working in the same host country, join hands, forge inter-institutional links and plan collective action.

TYPES OF REMITTANCES

I. INTRA-COUNTRY REMITTANCE

Generally, remittances are monies / flows being transferred from one individual to another. There can therefore be intra-country remits. These are nationals sending money to friends and families within country, from one part of the country to another. For example, citizens remit money from urban to rural areas.

II. INTERNATIONAL REMITTANCE

The types most commonly discussed are international remittances. These are transfers of funds by foreign workers/remitters, who are living and working in developed countries, typically to their families, who are still living in their home countries. Examples include Middle Easterners living in Europe, Latin Americans in the United States, and Koreans or Filipinos in Japan. Although the use of remittance funds varies from country to country, the recipients of remittances commonly rely on them for living costs, education, and investments.¹³

III. COLLECTIVE REMITTANCES

Collective remittances, also known as “communal remittances”, are monies sent by diaspora groups, such as migrant associations and church groups to their home communities. Unlike

¹² Bimal Ghosh, *Migrants' Remittances and Development: Myths, Rhetoric and Realities* (2006) International Organization for Migration and The Hague Process on Refugees and Migration, pp. 81-82; and Conde, J.P. et al., 1986, “*South-north international migration-A case study: Malian, Mauritanian and Senegalese migrants from Senegal River Valley to France*”, Paris, OECD Development Centre.

¹³ Enrique Carrasco and Jane Ro, *Remittances and Development*, 2007, University of Iowa Center for International Finance and Development. Available at <<http://blogs.law.uiowa.edu/ebook/uicifd-ebook/part-4-ii-remittances-and-development> (04/09/2013)>.

household or individual remittances, collective remittances are typically intended for community infrastructure and other development initiatives or the construction or improvement of churches. This can also be seen as diaspora charity or philanthropy.¹⁴

COST OF MIGRATION

The primary cost associated with migration for the country of origin is the “brain drain,” or the loss of some of its brightest citizens. When migrants are skilled and/or highly educated, the sending country experiences not only the loss of that worker and his contribution to society, but also the investment made in his education or training, and the potential for him to mentor and teach others. Considering that making an international move requires some financial solvency and entrepreneurship from anyone, even unskilled workers who migrate are a loss to their country of origin.¹⁵

The effect of “brain drain” is acute in many developing nations where doctors and nurses are in short supply locally because they have been so heavily recruited to make up for shortfalls in developed countries such as the United States. PBS Frontline World’s Barnaby Lo has reported that the US is expected to have a deficit of 800,000 to one million trained nurses by the year 2020, and the American government actively recruits medical personnel all over the world with special visas. Lo goes on to note that the nursing shortfall is so extreme, and the recruitment so lucrative, that many trained engineers, teachers and even doctors in places like the Philippines, India and South Africa are abandoning their careers to enter nursing school with an eye toward emigration. In the Philippines alone, a study by the country’s former Secretary of Health found that: “80% of all government doctors have become nurses or are in nursing schools. There are roughly 9000 doctors-turned-nurses and 5000 of all these medical practitioners are now working abroad.” The public health and economic effects of this trend are potentially devastating to developing countries.¹⁶ Not only are financial successes and talents transferred to the recipient country, but potentially valuable political assets as well. Most migrants are from poor countries that often have poor governance, as both a cause and symptom of their impoverishment. When the best and brightest leave, they take potential reformist energy and acumen with them.

CHALLENGES AND THE NEGATIVE IMPACT OF DIASPORAS

Just as immigrants in host countries can act in ways that benefit their countries of origin, they can also act in ways that are destabilizing. Pressure exerted from migrants, exiles and expatriates on incumbent leaders who are resistant to reform, often backfire. This can lead to repression and/or retaliation toward citizens back home.¹⁷ Many civil conflicts are initiated and/or exacerbated by the advocacy and fundraising of emigrants with particular interests. For example, the fragile situation in post-genocide Rwanda is thought to be imperiled by the opposing activities of Hutu and Tutsi exiles abroad. Inter-state conflicts can be aggravated by

¹⁴ IFAD (2006), *Remittances: strategic and operational considerations* - Annex to IFAD Decision Tools for Rural Finance, p. 11.

¹⁵ World Savvy monitor, human migration issue 07, January 2007, “*Human Migration: Effect on country origin*” available <[<http://worldsavvy.org/monitor/index.php?option=com_content&view=article&id=428&Itemid=812\(04/09/2013\)>](http://worldsavvy.org/monitor/index.php?option=com_content&view=article&id=428&Itemid=812(04/09/2013))>.

¹⁶ Idem.

¹⁷ Ingrid Palmer, “*The Impact of Male Out-migration on Women in Farming*”, West Hartford, Kumarian Press, 1985.

their opposing champion Diasporas living abroad as well. An example is the influence of Chinese and Taiwanese Diasporas in the US during moments of tension in the Taiwan Strait. Similarly, foreign nationals who participate in terrorist acts in their host countries strain relations between those nations and their countries of origin, and can discredit their home countries.¹⁸

DEVELOPMENT AS A CONCEPT

Amartya Sen's concept of "Development as freedom"¹⁹ and its consequential constitutive arguments is embraced as it encapsulates not just an economic-centric (macro/micro economic and investment) view of development, but captures a holistic socio-economic perspective, which is in keeping with the rule of law and seeing development as having a "transforming impact". Sen, an economist, posited that there are five distinct types of freedom, which are institutions and instrumental freedoms. These are: (i) political freedom; (ii) economic facilities; (iii) social opportunities; (iv) transparency guarantees; and (v) protective security. He further argued that these types of rights and opportunities help to advance the general capacity of a person and may even complement each other. They are concerned with the overall freedom of people to lead the kind of lives they have reason to value.²⁰ The instrumental freedoms link with each other and with the ends of enhancement of human freedom, in general. Social opportunities, such as education, as Sen noted, also facilitate economic participation. Freedoms are not only the primary ends of development, but they are also among its principal means.²¹

EFFECT OF DIASPORA'S REMITTANCES

Remittances to developing countries, in comparison with other forms of external financial flows are in general, stable and counter-cyclical in host countries and are thus, an attractive source of development finance²². Remittance is unlike private capital flows, in that it tends to rise when the recipient economy suffers an economic downturn following a financial crisis, natural disaster, or political conflict. In these hard times, migrants send more funds to help their families and friends. Remittances thus smooth consumption and contribute to the stability of recipient economies by compensating for foreign exchange losses due to macroeconomic shocks. For example, remittances as a share of personal consumption expenditure rose in Indonesia, Mexico and the Philippines following financial crisis and in Central America following natural disasters. In many conflict countries such as Haiti and Somalia, remittances provide a "lifeline to the poor". In Latin America, which has long been dependent on foreign financing and the vagaries of commodity prices, remittances work effectively as an informal "stabilization fund"²³. Arguably, remittance is an important and stable source of external development finance. However, there are mixed views on the growth effect of remittances and their impact. The true scale of remittances, including unrecorded flows through formal and informal channels is believed to be even larger than recorded. Remittances provide a convenient angle for approaching the complex migration agenda. They play an effective role in reducing poverty in

¹⁸ Idem.

¹⁹ Amartya Sen, *Development as Freedom* (1st edn Oxford University Press, 1999), pp. 3 – 53.

²⁰ Id. Sen at page 10.

²¹ Sen at pages 10 and 11.

²² Bimal Ghosh, *Migrants' Remittances and Development: Myths, Rhetoric and Realities* (2006) *International Organization for Migration and The Hague Process on Refugees and Migration*; pp.97-98.

²³ Loser, Claudio, Caitlin Lockwood, Adam Minson, and Lucia Balcazar. 2006. "The Macro-Economic Impact of Remittances in Latin America - Dutch Disease or Latin Cure?" Presented at the G-24 Technical Group meeting in Singapore on September 13-14.

recipient economy.²⁴ Remittances directly augment the income of the recipient households. In addition to providing financial resources for poor households, they affect poverty and welfare through indirect multiplier effects and also macroeconomic effects. Also these flows typically do not suffer from the governance problems that may be associated with official aid flows. The evidence on the effect of remittances on long-term growth is inconclusive.

A model was developed, which examined the causes of remittances that yields a simple test of whether remittances behave like capital flows. Using the model, it was illustrated that altruistically motivated remittances intend to compensate their recipients for bad economic outcomes, and so should have a negative relationship with income growth. Capital flows such as FDI, on the other hand, are profit driven, and have a positive correlation with GDP growth. Further, empirical evidence was that remittances tend to be negatively correlated with GDP growth and are thus compensatory in nature. This means that remittances differ greatly from private capital flows in terms of their motivation. Remittances do not appear to be intended to serve as capital for economic development, but as compensation for poor economic performance. The negative correlation between immigrant remittances growth and per capita GDP growth is an intriguing finding and while it is clear that remittances are not intended to serve as capital flows, it is unclear as to what kinds of economic impacts to be expected of them. For example, policies that are predicated on the presumption that remittances have similar uses and effects as other private capital flows may have unintended consequences. In looking at the impact of remittances on the incentives of recipients, if these remittances are used by recipients to reduce their labor supply and labor market participation, economic activity will possibly be adversely affected.²⁵

However, contrary arguments have been posited, as the empirical evidence on the growth effects of remittances, remains mixed. In part, this is due to the fact that the effects of remittances on human and physical capital are realized over a very long time period and the difficulty associated with disentangling their counter-cyclical response to growth, which implies that the causality runs from growth to remittances, but the correlation between the two variables is negative. It has not been easy to find appropriate instruments for controlling such reverse causality. It would be easy to conclude that remittances have a negative effect on growth, but that would be erroneous. Also, to the extent that they increase consumption, remittances may increase individual income levels and reduce poverty, even if they do not directly impact growth²⁶.

To the extent that they finance education and health and increase investment, remittances could have a positive effect on economic growth. In the economies where the financial system is underdeveloped, remittances may alleviate credit constraints and act as a substitute for financial development. Even when they increase consumption, remittances may increase per capita income levels and reduce poverty and inequality, even if they do not directly impact growth. On the other hand, large outflow of workers (especially skilled workers) can reduce growth in countries of origin.²⁷

²⁴ Dilip Ratha, *Leveraging Remittances for Development*, Migration Policy Institute (MPI) – Policy Brief: Program on migrants, migration, and development. June 2007, pp. 1-3.

²⁵ Ralph Chami, Connel Fullenkamp and Samir Jahjah, *Are Immigrant Remittance Flows a Source of Capital for Development?* IMF Staff Papers, Vol. 52, No. 1 (2005), pp. 77. Palgrave Macmillan Journals.

²⁶ Dilip Ratha and Sanket Mohapatra, *Increasing the Macroeconomic Impact of Remittances on Development*, *Development Prospects Group*, The World Bank, Washington D.C. 20433 November 26, 2007, p. 5.

²⁷ Id at pp. 3 – 4.

CHAPTER 3

(Aaron W. Barchue, Liberia)

The new era of giving has changed tremendously. It is a landscape that was previously dominated by Official Development Assistance. Every year, millions of migrants leave their homes and families behind to make living overseas. They send billions of dollars back home to loved ones, collectively spending millions of dollars on remittance prices. In 2012, alone 30 million African migrants sent US\$60 billion back home to loved ones in remittances for their survival, health, education and livelihood (Send Money Africa, 1/2013).

International organizations have crucial role to play in the global issue of remittances. The linkages between remittances, migration, poverty and development make it even more important for international organizations, non-governmental organizations, and intergovernmental organizations to get involve in regulating and directing, to a certain extent, the global trend remittances have taken. Studies have shown that migrants leave their countries of origin basically because of economic development, social inequality, conflict, poverty and other geographical reasons such as drought, etc.

IOM (Fact & Figures) Global estimates and trends:

According to the International Organization for Migration (IOM), the total number of international migrants has increased over the last 10 years from an estimated 150 million in 2000 to 214 million people today. 3.1 percent of the world's population represents migrants, and 1 out of every 33 persons in the world today is a migrant (whereas in 2000 one out of every 35 persons was a migrant). Qatar 87 per cent; UAE 70 per cent; Jordan 46 per cent; Singapore 41 per cent; and Saudi Arabia 28 per cent, respectively, are countries with high percentage of migrants. While South Africa 3.7 per cent; Turkey 1.9 per cent; Japan 1.7 per cent; and Indonesia 0.1 percent, respectively - are countries with low percentages of migrants.

Migrants would constitute the fifth most populous country in the world says the IOM. Migration, according to the IOM, is now more widely distributed across many countries, and forty nine per cent of migrants worldwide are women. (IOM Facts & Figures).The International Organization for Migration Facts & Figures reports that rich countries are the main source of remittances, and that the United States is by far the largest, with USD 48.3 billion in recorded outward flows in 2009. Saudi ranks as the second largest, followed by Switzerland and Russia. Estimated remittances sent by migrants to developing countries in 2010 amounted to US\$325 billion.

The Remittance Price Worldwide (RPW) database was launched in 2008 by the World Bank to gather data on migrants' remittances. The Remittance Price Worldwide (RPW) is a key monitor of cost variation to remitters and beneficiaries from sending and receiving money along major country corridors. In its November 2010 report, the RPW covered 200 country corridors worldwide originating from 29 major remittance sending countries to 86 receiving countries.

That notwithstanding, the challenges faced by migrants are enormous. The most recognized one is the high cost of remittance prices. According to (Alberola and Salvado, 2006), the remittances market is dominated by Money Transmitters Operators (MTOs), while the participation of banks is strikingly small. "It is important to stress that, by their nature and contrary to banks, MTOs do not offer financial services attached to remittance, they act as mere money transmitters"(Alberola and Salvado, 2006). Fees charged by MTO are seen as explicit, which is a percentage of the amount remitted. The exchange rate spread is the difference

between the exchange rate applied by the money transmitter company to convert dollars into local currency and the market exchange rate. It remains that the cost of remittances is high and large differences are observed among different destinations (Alberola, Salvado, 2006).

The banks and MTOs are considered as two main financial intermediaries. The MTO's which act as just transmitters of money and the banks, which can also allow for saving with a return and extend credit. MTO's and banks charge fee for sending the money, which may be different: this includes the explicit fee plus the exchange rate premium. However, families are more interested in MTO's than banks services due to familiarity, convenience, and simplicity. Commercial banks will have to work around their strategies to attract remitters to use their services.

In understanding the role of commercial banks in remittances, one must first understand the reasons that migrants remit money. According to (Alberola and Salvado), there are four main reasons behind migrants' decisions to remit. They named these reasons as: i) Altruistic Motive; ii) Loan Repayment; iii) Co-insurance; and iv) Self-Interest Motive. Remittances based on altruism are sent out of affection and responsibility towards family. It has been argued in the poverty literature that the major reason why people migrate to other countries is due to poverty.

According to the altruistic model, then sending remittances yields a satisfaction and utility to the migrant out of a concern for the welfare of his family. Altruism can also be mixed up with elements of loan repayment and coinsurance, both of which arise when considering remittances as the outcome of an implicit family contract, among those staying and those leaving (the migrants). Based on the monopolistic operation of MTO's, they set large remittance fees, so that they are able to derive large rents from the market, which increase with the level of altruism of the migrant. As a consequence, they depress remittances and the level of consumption to migrants and their families back home. (Alberola and Salvado).

A significant slice of remittances goes to the operators as rents rather than to families of the migrants in developing countries (Alberola and Savaldo). Furthermore, most of the migration countries are characterized by low financial development. Surprisingly, the main financial intermediaries, commercial banks in both the source and recipient countries, have a low share of the global remittances market. Thus there is a clear case to increase competition in the remittances markets through banks entry (Alberola and Salvado).

Relating this point to the role of commercial banks and private actors, it can be clearly seen that commercial banks have a stake in addressing the global remittance issue. While banks provide incentives for senders and recipients of money, its underutilization by migrants is racing more concern. Banks have been unable to capture a substantial part of the remittances markets because of branching distribution system which is ill-suited to reach fast the recipients in remote areas in countries with low financial development where bancarization is scare, while the MTO has a larger network. (Alberola and Salvado).

Also, behavior evidence suggests that many remittances senders take a skeptical view of banks and other financial institutions. In some instances, many immigrants fail to understand and are suspicious of bank pricing structures. In many cases this mistrust is linked to the dismal performance of banking systems in the origin countries of migrants, characterized by financial crisis, appropriation of savings or depletion of their value. Another reason is that the requirements of documentation and transparency in banking transactions tend to be higher than on MTO's; the large share of informality in the migrants' and their irregular legal situation act as strong deterrents of both access to and use of the banking channel.

Given these obstacles, banks, in order to be competitive in the remittances market, are developing several initiatives to increase financial literacy and build confidence. The initiatives take different forms, such as targeting the migrants market at the host countries and it is complemented by variety of strategies at the country of origin of migrants, either through joint venture with local financial and non-financial institutions or even with MTO's. These direct or indirect initiatives, as well as some others with less intrinsic financial content, will contribute in generating more trust. It will broaden the scope of banking activities in the market through customer linkages. If the use of the banking channel has positive effects on savings, then banks would have strong incentives to create lasting banking relationships with migrants who use remittance products.

Remittances could also serve as collateral for future credits as they have proved to be more stable when compared to other private capital flows. At the same time, remittances are less affected by economic downturn; on the contrary, they are known to rise during periods of downturns or crises in the migrants' country of origin. The positive effect of the use of the banking channel on savings will boost both, the social and the economic impact of remittances on emerging economies (Alberola and Salvado).

African migrants could save US\$4billion annually on remittance. According to Send Money Africa (SMA), every year, millions of migrants leave their homes and families behind to make a living overseas. And every year, these migrants send billions of dollars back home to their loved ones, collectively spending millions of dollars on remittance prices in the process, In 2012 alone, 30 million African migrants sent US\$60billion in remittances, With scarce opportunities at home, the majority of the 120 million recipients in Africa depend on remittances for their survival, health, education and livelihood (Send Money Africa, 1/2013).

Africans pay more to send money home than any other migrant groups. Sub-Saharan Africa is the most expensive region to send money to, with average remittance costs 12.4 per cent in 2012. The average cost of sending money to Africa as a whole is 12 percent which is high than global average of 8.96 per cent, and almost double the cost of sending money to South Asia, which has the world's lowest price (6.54 per cent), (Send Money Africa, 1/2013).

"Bringing remittance prices down to 5 percent from the current average of 12.4 percent, which is what the G8 and G20 are targeting by 2014, would put US\$4billion back in the pockets of Africa's migrants and their families". Gaiv Tata, Director of the World Bank's Africa region said "high transaction costs are cutting into remittances, which are lifeline for millions of Africans". Remittances play a critical role in helping households address needs and also invest in the future, so bringing down remittance prices will have a significant impact on poverty. He further said that lowering the cost of remittances can also advance financial inclusion. (Send Money Africa, 1/2013).

Remittance prices are even high between African nations. South Africa, Tanzania and Ghana are the most expensive sending countries in Africa, with prices averaging 20.7 percent, 19 respectively, due to limited competition in the market for cross border payment, etc. According to Massimo Cirasino, Manager of the World Bank's Financial Infrastructure and Remittances Services Line, competition and transparency are key. He further noted that, "governments should implement policies to open the remittances market up to competition". Increased competition, as well as better informed consumers, can help bring down remittance prices. (Send Money Africa, 1/2013)

"Migration is significantly reshaping the traditional social and economic structures of rural communities in both positive and negative ways", (Lundius, Lanly et al). A report from the International Fund for Agriculture Development entitled, International Migration, Remittances

and Rural Development, says that development organizations that support rural poor families in overcoming poverty are realizing that essential members of these families are making their living abroad, far away from their dependents, thus making the global village become a reality. However, the poverty that forced rural inhabitants to migrate still exists in their places of origin and continues to influence their lives and prospects in their 'adopted countries', as well as those of the people they left behind, (Lundius, Lanly et al).

In addressing rural poverty it says, one challenge is to take these new social and economic realities into consideration and integrate them into innovative strategies for promoting rural development. According to the report, the complexities of the migration phenomenon must be incorporated into the development agendas of the developed and developing countries, as well as those of development organizations, (Lundius, Lanly et al).

The reasons for migrating are complex and vary from area to area. Migration may be prompted by major economic, demographic and social disparities, as well as by conflicts, environmental degradation or natural disasters. Regardless of their origin and the causes of the relocation of almost 200 million migrants worldwide, their productivity and earnings constitute a powerful force for poverty reduction. Remittances are the financial counterpart to migration and are the most tangible contribution of migrants to development of their areas of origins, (Lundius, Lanly et al).

Social and economic interaction between migrants and their communities of origin play unique roles as agents of change in both their countries of settlement and origin. Governments and financial institutions and international development agencies can no longer afford to ignore the ever-growing impact that financial flows from migrants have on the economic and social development of remittance-receiving countries, (Lundius, Lanly et al.). Focusing on how migration can positively influence the achievement of the development targets set by the Millennium Development Goals (MDGs) will yield fruitful result.

Recorded remittances constitute nearly two thirds of foreign direct investment (FDI) flows and more than double official aid flows to developing countries. The strong rise in remittances flows over the past several years is the result of increased migration, (Lundius, Lanly et al.). Worldwide, remittances have become the second largest capital inflow to developing countries after FDI and before official development assistance (ODA). In some countries, remittances have even surpassed the levels of FDI and ODA. According to the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB), remittances to Latin American and the Caribbean reached \$66.5 billion in 2007, an increase of 7 per cent over 2006, (Lundius, Lanly et al.).

Migrants have various options for sending remittances: money transfer companies (Western Union, MoneyGram, etc.) or credit card companies; regular mail service; financial transfers through banks, credit unions or the various transfer options offered by companies, (e.g. supermarkets or through mobile phones); informal channels such as couriers, or more sophisticated channels such as the 'Hawala' and 'Hundi' transfer systems; or hand-carried by migrants themselves.

Where the financial sector is missing, weak or mistrusted, people tend to use informal money transfers, while in stronger, liberalized economies, they trust the formal sector. Despite recent efforts to convince migrants to use authorized financial channels, many continue to use informal ones. Banking the 'unbanked' – that is, reaching out to those who lack ready access to banking services – is a key factor in any effort to bring about a shift from informal to formal financial institutions among remittance senders and receivers.

Informal money transfers are very common among low-income groups in Africa and Asia. The Hundi and Hawala transfer systems are particularly important in Bangladesh and Sudan. Forty per cent of all remittances are routed through the Hundi System in Bangladesh, and it has been estimated that the Hawala system provides up to 85 per cent of Sudanese remittances. Conversely, Latin American and Caribbean migrants mainly use formal channels. Partly due to the rapid growth of the volume of remittances in the 1990, services for transferring remittances have expanded and diversified, (Lundius, Lanly et al.). Money companies, such as Western Union, handle the majority of remittances from the United States to Latin America and the Caribbean. **A comparative study of the transfer costs to some countries in Africa, Asia and Europe have demonstrated that banks have become considerably cheaper than international money transfer companies over the last several years.** The mean value of remitting through banks was 7 per cent, compared with 12 per cent for companies such as Western Union, (Lundius, Lanly et al.).

Governments, intergovernmental organizations and community-based organizations are currently involved in efforts to lower the cost of remittance transfers. As more banks and credit unions become involved and extend their services to migrant communities and their rural communities of origin, costs will most likely continue to decrease. However, it is important that migrants and recipient communities gain a better understanding of the various options for remitting and receiving. In particular, migrants and recipient communities need access to local financial institutions, not only because of the lower remittance costs, but also because of the greater opportunities to initiate or increase their savings and their access to other financial services such as housing loans, (Lundius, Lanly et al.).

According to the IFAD report, International Migration, Remittances and Rural Development, new technologies may also help lower the cost of remittance transfers and allow migrants and their families at home to send and receive remittances with greater ease. One of the popular techniques in the Americas is the use of automatic teller machine (ATM)/ debit card transfer services, which are being offered by a growing number of private banks. When migrant workers enroll in such programs, they are issued a debit card to be used by a designated person in the home country. The cost of this type of transfer can be less than half the cost of a traditional transfer. Another type of money transfer service that is expanding quickly uses the Internet, offering mostly on-to-offline transactions. The sender processes a transaction over the Internet, using a credit card or bank account number, while the recipient collects the payment through traditional mechanisms. Mobile phones hold the greatest promise for Africa and remote corners of Asia and Latin America. The G-Cash program of GlobeTel Communications Corporation (GTel) is a Philippine service using short-message-service (SMS) to execute transactions and cash centers to pay out the funds received.

The creation and strengthening of financial institutions in rural areas can help reduce the cost of sending and receiving remittances. The International Remittance Network (IRnet), a network set up in 2000 by the World Council of Credit unions (WOCCU), which allows members of credit unions to send money for a fee lower than those of transfer alternatives. WOCCU, in collaboration with MoneyGram and Vigo Remittance, has facilitated transactions amounting to US\$1.5 billion through approximately 300 credit union locations throughout the United States and 900 rural and urban credit union locations in Bolivia, Ecuador and other places, (Lundius, Lanly et al.).

TRANSNATIONAL COMMUNITIES AND HOMETOWN ASSOCIATIONS

International migrants are building what have been called 'transnational communities' in which migrants (but also non-migrants) are social actors, not only in the sending country but also in the country of origin. They engaged in variety of economic, political and social transnational practices that directly affect local development. Migrants' communities with close links to their places of origin always existed. However, the diversified capability of migrants to intervene in their places of origin is quite new and is supported by factors such as constantly improved means of communication, the needs of relatives and friends left behind, and a desire to help their communities prosper by creating new and better opportunities.

BANKING THE UNBANKED: INCREASING ACCESS TO FINANCIAL SYSTEM

Given the important role that financial access and services could play in achieving rural development, concentrated efforts are being made to link remittance senders and recipients to financial institutions. In March 2004, the MIF formalized basic recommendations for the Latin American remittance market (the Lima Declaration). The second goal of the declaration is to raise the percentage of families receiving remittances through the financial system to 50 per cent. In April 2004, the Group of Seven (G7) countries issued a statement promising that "on remittances, we will continue to work on our initiatives to reduce barriers that raise the cost of sending them and to integrate remittance services in the formal financial sector". At the 2004 G8 Summit, the action plan adopted included activities to increase financial options for the recipients of remittances in order to foster their development impact.

Throughout Africa, financial and monetary policies and regulations have created barriers to the remittance market. This is partly due to restrictive licensing of money transfer services and commercial banks been hindered from penetrating the remittance market. Only banks that are part of a system network or that have corresponding banks, can receive international transfers.

MICROFINANCE INSTITUTION

While commercial banks may be more able to tap into financial and money transfer systems and provide more sophisticated services to remittance recipients than are more transfer operators, they may not serve the needs of poorer recipients, particularly in rural areas, without linking to smaller financial institutions. Involving credit unions and microfinance institutions (MFIs) more in the remittance transfer process is a promising means of expanding financial access to poor people, particularly rural areas with no access to larger commercial banks, (Lundius, Lanly et al). These institutions already provide financial services to poor people and are well equipped to handle remittance payments and establish banking relationships, owing to their expansive networks and presence in both rural and urban areas. In some countries, partnerships between MFIs and the formal financial sector are being formed, and public and private-sector infrastructure and knowledge are being shared and leverage.

STRENGTHENING THE DIASPORA DEV LINK

There are several other ways migrants can contribute to the development of their counties of origin, whether through remittance flows, goods, collective contributions of time and money, business networks, investments or the transfer of skills, culture, knowledge or experience. Greater efforts must be made to tap into this rich human capital, (Lundius, Lanly et al.).

Development agencies, governments, NGOs and diaspora groups could facilitate diaspora contributions by establishing mechanisms that enhance the diaspora-development link.

In order to mobilize remittances toward savings or investment, a shift is needed from money transfer operators, which serve only a cash transfer or exchange function, towards the use and development of financial institutions, which provide remittance transfer services and often financial services (saving accounts, loans, insurance),(Lundius, Lanly et al.). Undertaking by commercial banks to disseminate information on the level of transparency and remittance products and services, would help foster competition and innovation, which in turn would help reduce the costs of these products and services (Lundius, Lanly et al.). It would help governments and private-sector efforts increase the flow of remittances through formal channels, which in turn would help increase access to other financial products.

In an effort to tackle the high costs of remittances, G8 and G20 countries along with the World Bank and other international institutions and organizations adopted a strategy called “5x5 objective”. The World Bank is leading international effort on the “5x5 objective”, which has also been endorsed by the G8 and G20. The objective is to bring global remittance prices down to 5 per cent by 2014. According to the world grouping, “achieving that goal could save African migrants US\$4 billion annually”. (Massimo Cirasino, 2013)

In enhancing the development potential of remittances, a remittance-receiving country should have an outreach policy directed at the community residing abroad as part of its economic strategy. Such a policy would enable sending countries to enhance their links with immigrant communities living abroad, (Lundius, Lanly et al.). These countries could set up agencies to advise prospective migrants on their rights and obligations, build or enhance already existing networks for investment, international trade and tourism, and invite diaspora groups and HTAs to participate in forums for dialogue on development.

CHAPTER 4

(Nigel B. Gayle, Jamaica)

Despite the ethical drawbacks, its unpredictability and largely unquantifiable nature, remittances can contribute to investment and output growth, promote sustainable development and help to effectively fight poverty. It provides a convenient angle for approaching the complex migration agenda. The fact that there are approximately 200 million migrants from developing countries living outside of their origin country, who on average send remittances ten times per year²⁸, and there are multiple other actors involved in the remittance services, **indicate the complex agenda and international architecture. It also signals an opportunity to mobilize or leverage this large Diaspora, potential partners and agents of catalytic national development.** They and their investments should also be linked and integrated into the wider economy. Likewise, there is a clear opportunity to tap into migrants' earnings that are being sent home or remitted and to channel them towards development.

Since remittances are personal flows from migrants to their friends and families, they tend to be well targeted to the needs of the recipients. These flows typically do not suffer from the governance problems that may be associated with official flows. Remittances should not be taxed or directed to specific development uses. There are also intra-country remittance flows, typically, where nationals send money from one part of country to another to family members/friends, like from urban to rural regions. The development community should make remittance services cheaper and more convenient and indirectly leverage these flows to improve the financial access of intra-country remitters, migrants, their beneficiaries, and the financial intermediaries in the origin countries. A strong flow of remittances can also improve the receiving country's creditworthiness, lowering their cost of borrowing money in international markets.²⁹

The funds being sent homes by migrants or intra-state present a "lifeline out of poverty for those left behind".³⁰ **The process by which remittances can be used as a powerful tool for economic development, development in general and to fight poverty, is not automatic.** They have to be strategically channeled to reap the intended rewards. Thus, instruments are to be developed to facilitate this leveraging. The benefits of remittances for development are, nevertheless, conditional upon the broader economic and political context. Remittances may be more effective in a good policy environment. For instance, a good investment climate with well-developed financial systems and sound institutions is likely to imply that a higher share of remittances is invested in physical and human capital.³¹ Research has shown that remittances may promote financial development that has a rippling effect of enhancing growth, which

²⁸ IFAD, *Remittances: Sending money home*, Factsheet (2009) available at [http://www.ifad.org/pub/factsheet/remittances/e.pdf\(05/04/13\)>](http://www.ifad.org/pub/factsheet/remittances/e.pdf(05/04/13)>), p. 3.

²⁹ Dilip Ratha and Sanket Mohapatra, *Increasing the Macroeconomic Impact of Remittances on Development*, Development Prospects Group, The World Bank, Washington D.C. 20433 November 26, 2007, p.1.

³⁰ Id, IFAD, *Remittances: Sending money home*, at p. 1. [http://www.ifad.org/pub/factsheet/remittances/e.pdf\(05/04/13\)>](http://www.ifad.org/pub/factsheet/remittances/e.pdf(05/04/13)>).

³¹ IMF. 2005. *World Economic Outlook*. International Monetary Fund, Washington, DC.

reduces poverty.³² The measures, instruments and initiatives taken by Government and non-state actors, should take into account national development priorities and stage of development, the source of the remittance flow (international or intra-country) including human, institutional and infrastructural national capacity and context.

The move to channel remittances through policies and schemes is not being or to be propelled as a substitute for development aid or efforts, but seen as complementary. That notwithstanding, given the sheer volume of remittances, they have the potential to stimulate local economies, improve life at home so that migration becomes a choice instead of a necessity.³³ Channelling remittances require a multifaceted and client-based approach that involves the participation of all stakeholders, protecting and balancing their interests.

INTERNATIONAL REMITTANCES AGENDA

The international remittances agenda can be summarized under 4 headings. Thus, a research and policy agenda to maximize the development impact of international and intra-country remittances, reduce poverty and to achieve some of the UN Millennium Development Goals, would include and respond to the following four (4) elements: a) monitoring, analysis, and projection; b) retail payment systems; c) financial access of individuals or households; and d) leveraging remittances for capital market access of financial institutions or countries.³⁴

³² Aggarwal, Reena, Asli Demirguc-Kunt, and Maria Soledad Martinez Peria. 2005. "Do Remittances Promote Financial Development? Evidence from a Panel of Developing Countries." Policy Research Working Paper 3957. World Bank, Washington, DC.

³³ Id, IFAD, *Remittances: Sending money home*, p. 1.

³⁴ Dilip Ratha, *Leveraging Remittances for Development*, Migration Policy Institute (MPI) – Policy Brief: Program on migrants, migration, and development. June 2007, pp. 1-3, 12-14. Ratha discusses each area in details as follows:

- (a) **Monitoring, analysis, and projection** - This includes understanding the size, corridors, channels, and costs of remittance (and migration) flows and the cyclical behavior of these flows; analysis of remittances' impacts on poverty, inequality, education, health, and investment in remittance-recipient countries; and analysis of policy factors affecting remittance costs—for example, entry barriers and exclusivity contracts affecting market competition and exchange controls affecting foreign exchange commissions. The effect of cost reduction on size and channels of flows also falls under this heading.
- (b) **Retail payment systems** - The changes in the payment system relating to personal remittances impact all retail or small-value payments, including person-to-business and business-to-business payments. The items in this category include new payment platforms or instruments (including cell phone-based, card-based, or Internet-based remittance instruments); prudential capital requirements; and regulations governing access of remittance agents to clearing and settlement systems; compliance with anti-money laundering and attempts to counter the financing of terrorism; disclosure of remittance fees; and cross-border arbitration in the event that a remittance transaction is not delivered as per the service agreement.
- (c) **Financial access of individuals or households**. While financial intermediaries such as banks, microfinance institutions, credit unions, and saving banks can help deliver remittance services, they can also benefit by offering remittance services that may attract new customers and then encourage them to save and invest. Besides encouraging saving out of remittances, these financial intermediaries can develop remittance linked consumer or housing loans and insurance products. They can also use the history of remittance receipt for evaluation of a recipient's creditworthiness.

INCENTIVE SCHEMES AND REGULATORY MEASURES: PROPOSALS FOR DEVELOPING APPROPRIATE MACRO-ECONOMIC POLICIES TO RESPOND TO REMITTANCE INFLOWS – TO PRESERVE THEIR VOLUME AND VALUE FOR DEVELOPMENT

Encouraging the flow of remittances through formal channels

When remittances move through informal or underground channels, they do not contribute to official foreign exchange reserves nor can be geared toward the development policy and priorities of the countries. Formalizing the flow of remittances will improve the recording of remittances. Regulatory measures must however be proportionate to the potential risks and sensitive to the possible impacts on those who rely on remittances. The challenge, undoubtedly, is to strike the balance between preventing financing of terrorism, money laundering and other criminal acts, and encouraging free flow of remittances.³⁵ Policies need to be formulated and implemented with the needs of the stakeholders in mind. The migrants need to be able to transfer funds through a fast, efficient, competitive and secure financial system. Recipients, at the other end, require access to deposit accounts, so they can save, build credit histories and invest in their future. Other supportive services like financial education and more advanced financial services can provide recipients with the enabling tools to achieve sustained financial independence.³⁶

INCENTIVE SCHEMES AND REGULATORY MEASURES

Successful schemes and measures employed must understand and respond to the market matrix for remittances. Remittance is the service. On the demand side, there are the clients (remitters and recipients) who want access to remittances and other rural financial services. On the supply side, there are the providers of remittance services and other financial services. Like all markets, there is the need or issue of regulating them. This enabling environment is characterised by regulators, policies, regulations and payment system (to remit: cheque, debit, electronic, account-to-account and other innovative means).³⁷ Further, the WSBI Fair Value Remittances Value Proposition³⁸ caters to the main actors in this market matrix. It suggests that

(d) **Leveraging remittances for capital market access of financial institutions or countries.**

Large and stable remittance flows undoubtedly improve a country's creditworthiness and thereby the creditworthiness of sub-sovereign entities as well. Banks in many countries have used future remittances as collateral for raising significant bond financing (sometimes billions of dollars) from international markets. The interest spread on these bonds was lower and the tenor was higher than comparable plain sovereign bonds. Some estimates show that the potential for such bond financing remains untapped, especially in many poor countries that also receive significant remittances. The funds raised via these bonds can be targeted to specific development projects.

³⁵ United Kingdom Government, 2004 *Migration and Development: How to Make Migration Work for Poverty Reduction*, vol. 1. HC International Development Committee, Lon., Stationery Office.

³⁶ IFAD, *Remittances: Sending money home*. Factsheet available at <http://www.ifad.org/pub/factsheet/remittances/e.pdf> (05/04/13)>, at p.1.

³⁷ IFAD (2006), *Remittances: strategic and operational considerations* - Annex to IFAD Decision Tools for Rural Finance, pp. 25-31. Document available at [http://www.ifad.org/ruralfinance/pub/remittances.pdf\(05/04/2013\)](http://www.ifad.org/ruralfinance/pub/remittances.pdf(05/04/2013)).

³⁸ Id. IFAD (2006), See Annex V, p. 40:

Government schemes and measures should ensure that all stakeholders' interests are understood, mutually protected and served.

According to Lucas³⁹, there are four (4) main categories of Incentive Schemes and Regulatory Measures / Policies that can and have been employed by Governments:

- (i) Mandatory remittance requirement;
- (ii) Financial incentives offering preferential exchange and interest rates;
- (iii) Financial incentives offering tax breaks; and
- (iv) Regulation of informal intermediaries.

Leveraging remittances for improving the access of private sector banks to international capital markets⁴⁰ :

Government policies should as far as possible, provide an enabling environment for commercial banks in developing countries to leverage access to remittances to raise capital from international bond markets for financing infrastructure and other development projects. Some of these projects could focus on meeting migrants needs (such as building housing for returning migrants for instance). This could in turn, create an incentive for the formalization of transfers. To this end, securitization structures may be set up in an international financial center. A sound legal environment can mitigate the risk of sovereign expropriation. A future flow securitization structure allows securities to be rated better than the sovereign credit rating. Such securities are typically rated investment-grade, which makes them attractive to a wider range of investors, and thereby lowering the interest cost and lengthening the maturity.⁴¹

Countries receiving large remittances inflows may need to devise appropriate policies to deal with possible negative consequences. Policy responses can include fiscal measures,

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- Remitting Customer (the "Originator"): (i) Lower costs; (ii) Full transparency of end-to-end charges; (iii) Guaranteed execution time; and (iv) Clear redress procedure.
 - Receiving Customer (the "Beneficiary"): (i) Higher receipts; (ii) Predictable income frequency; (iii) Clear redress procedure; and (iv) Privileged access to financial services, including loan facilities.
 - Remitting Bank (the "Originator's Bank"): (i) Differentiated positioning vis-à-vis potential remitters ("ethical"); (ii) Marketing assistance (community-based) from receiving banks; (iii) Clear dispute resolution mechanism; and (iv) Greater customer retention and cross-selling opportunities.
 - Receiving Bank (the "Beneficiary's Bank"): (i) Standardized framework for establishing and managing relationships with remitting banks; (ii) Higher receipts for account-based customer population; (iii) More predictable cash management, lower processing costs; (iv) Differentiated positioning vis-à-vis other receiving banks and money changers; (v) Customer retention and broadening of products acceptance opportunities; and (vi) Clear dispute resolution mechanism.

³⁹ Lucas, R.E.B., 2005 *International Migration Regimes and Economic Development*, Edward Elgar Cheltenham, UK.

⁴⁰ (i) Ketkar, Suhas L. and Dilip Ratha. 2005, "*Recent Advances in Future-Flow Securitization*" The Financier. December; (ii) Ketkar, Suhas L. and Dilip Ratha. 2007, "*Diaspora Bonds: Track Record and Potential.*" Policy Research Working Paper 4311, World Bank, Washington, DC; and (iii) Dilip Ratha and Sanket Mohapatra, "*Increasing the Macroeconomic Impact of Remittances on Development*", Development Prospects Group, The World Bank, Washington D.C. 20433 November 26, 2007, p. 8-9.

⁴¹ This in turn may allow a bank to undertake projects that may have low economic returns but high social impact. Moreover, by establishing a credit history for the borrower, these deals enhance the ability and reduce the costs of accessing capital markets in the future.

sterilization of remittance inflows as a short-term response, and longer-term structural reforms to improve labor productivity and competitiveness of the economy. A reduction in government expenditure can prevent an overheating of the economy in the context of a surge in international workers' remittances. However, the necessary decrease in government consumption would have to be quite large to stabilize the exchange rate effect of remittance inflows. The use of this instrument may be constrained by considerations related to social and economic development. Like the Moldova Central Bank, strategic interventions in markets can reduce the adverse pressure on local currency.⁴² Remittances tend to be relatively stable and persistent over long periods and the "Dutch disease" effects of remittances are therefore, less of a concern than similar effects of natural resource windfalls, and the real exchange rate level achieved through sensible policies may be sustainable.⁴³ The appropriate policy response, therefore, is not to sterilize these flows, but to learn to live with them. Governments in countries receiving large remittances can mitigate the effects of real exchange rate appreciation, by allocating a larger portion of government expenditures on infrastructure - making their labor markets more flexible, and practicing more liberal trade policies to improve labor productivity and external competitiveness. These measures should take into account national development priorities and stage of development.⁴⁴

Poor countries that receive large remittances should try to obtain a sovereign rating from the rating agencies for enabling banks and private entities to raise capital from international markets.

Countries receiving large remittance inflows can take measures to ensure that these inflows are reflected in the sovereign rating. The sovereign rating acts as a ceiling for the rating of banks. Remittances may be leveraged for improving country creditworthiness. As profoundly noted by D. Ratha, in reference to leveraging remittances for development, remittances can improve a country's creditworthiness and thereby enhance its access to international capital markets for financing infrastructure and other development projects.⁴⁵ Any improvement in sovereign rating is likely to translate into an improvement in the rating of sub-sovereign borrowers. Countries should therefore make an effort to improve the data on remittances and make them available to rating agencies and international investors.

⁴² Id. See Dilip Ratha (2005 and 2007: Securitization, Remittance Development, and Diaspora Bonds).

⁴³ Remittances are widely dispersed, the great bulk is allocated in small amounts, and for the most part they avoid the government 'middleman'. In borrowing the reasoning of Birdsall and Subramanian (2004), remittances are likely to avoid the negative effects of natural resource windfalls on poverty, growth, and institutional capacity, if the bulk of the returns from resource flows are distributed to the general population who would use the funds more effectively than a highly centralized government, and also greatly reduce the incentives for corruption.

⁴⁴ Dilip Ratha and Sanket Mohapatra, *Increasing the Macroeconomic Impact of Remittances on Development*, Development Prospects Group, The World Bank, Washington D.C. 20433 November 26, 2007, pp. 7-9.

⁴⁵ The ratio of debt to exports of goods and services, a key indebtedness indicator, would increase significantly if remittances were excluded from the denominator. Country credit ratings by major international rating agencies often fail to account for remittances. Model-based calculations using debt to export ratios that include remittances in the denominator indicate that including remittances in creditworthiness assessments would improve credit ratings for Lebanon and Haiti; and result in implied sovereign spread reductions ranging from 130 to 334 basis points.

Migrant-receiving countries should educate migrants about available options for sending remittances and improve the access to banking for migrants, thereby helping to bring remittances into formal channels.

A larger share of remittances flowing through banks will enable migrant-sending countries to leverage their remittance inflows for raising additional finance at lower cost from international capital markets. Government could support, fund and initiate public education programs for migrants associations, locals and likely migrants of the need for nation-building and to invest in home country when they go abroad.

Governments and private financial and non-financial institutions in migrant-sending countries can potentially raise financing from the Diaspora, through the issuance of Diaspora bonds, which can be raised at lower borrowing costs, often in crisis times.

The Diaspora may be willing to provide a “discount” on these bonds for patriotic reasons. They are also more familiar with and willing to invest in their home country. Such funds raised from the Diaspora migrants abroad can finance investment in infrastructure and other long-term projects with high social value.

Special “wage-earner scheme” and migrant official remittance privileges may be utilized as incentives. Migrants can open foreign currency accounts paying preferential interest and convert holdings into local currency at premium rates:

In India, Pakistan, China and Israel, the Government was instrumental in the issuing of special foreign currency bonds / premium bonds that were targeted at respective Diaspora communities. The Bangladesh “wage-earner scheme” also has similar features and effect, where migrants sell remittance-based foreign exchange receipts at premium through public auction and buyers imported certain goods authorized by government. For example, in the Philippines, the overseas workers were allowed to spend up to US\$ 2,000 in “tax-free stores within two weeks of return to home country” and in Pakistan, migrant remittances of US\$ 2,500 or more through official channels, reviewed as incentives, special privileges from the Government of “allowance for duty-free imports” and renewal of passports free of charge.⁴⁶

Mandatory regulatory measures – compulsory transfers or forced remittances

Regulations requiring mandatory transfers of part or migrant earnings through formal channels have also been utilized, albeit cautiously. For example, in Korea, Government policies and regulations requires migrants to remit 80% of earnings through state banks, while in Philippines it was 50-70%. Other countries in Asia, such as Bangladesh, have also used this “minimum percentage of remitted funds approach”, but requiring less to be transferred through the stipulated formal government channel.⁴⁷ This approach, if at all adopted, must be cautiously applied, since, without consent of migrants and recipients, without more, they encroach on the flow of remittances, which by nature are private transfers and individual property. While adherence to the rule of law requires the respect of individual property and human rights and the fact that migrants and recipients are to be left alone to decide and act freely on how their

⁴⁶ Bimal Ghosh, *Migrants’ Remittances and Development: Myths, Rhetoric and Realities* (2006) International Organization for Migration and The Hague Process on Refugees and Migration, pp. 40-41.

⁴⁷ Abella, M.I., (1992) *Contemporary labour migration from Asia: policies and perspectives of sending countries*, in Kirtz, M.M., L.L. Lim, and H. Zlotnik (eds.), “International Migration Systems: A Global Approach”, Oxford, Oxford University Press.

funds are to be used and remitted - there is some justification in this approach of a need to widen their choice of mode and use of transferred funds. Others argue that 'horizontal tax-equity' between migrants and local necessitates this. However, Governments can play a supportive role in this context by amending and upgrading the legal framework to support remittances and service-providers, remitters and their migrant association and recipients. For example, banking regulations and law may be reformed to ensure safety, efficacy and legal protection of transfers, promotion of competition, lowering transaction costs and encouraging productive investment of remittances-leveraging credit.⁴⁸ In all these endeavors Governments must avoid breaching ethical and international wage protection standards, such as pursuant to the *International Labor Organization (ILO) Convention No. 95 (1949)*, and relevant local labor laws. Besides, unethical regulations are usually ineffective.

Based on the concluding findings of the International Fund for Agricultural Development (IFAD)⁴⁹, a UN specialized agency, it appears that there are cogent arguments for regulating remittance service providers, as regulated institutions, such as RFIs, postal banks and money transfer organizations, are the ones more likely to be in a position to offer remittance services. It is recommended therefore that Governments be proactive to create laws and institutions to help in the establishment of Domestic remittance services, as these are found to be perhaps more attractive than RFIs (international remittance services), because of the absence of the foreign currency risks. Moreover, although service costs are deterrents to potential customers/remitters, research has also shown that the remitters are more concerned about access to and the reliability of remittance services, than the actual costs to do the transfer. In that context, policy initiatives should be multifaceted, not just be concerned about cutting prohibitive remittance service costs, but to also facilitate creation of new service providers to widen competition and access. Such a holistic policy approach is likely to encourage the volume and value of remittance flows for development.

Other Incentivizing Initiatives, mechanism, policies and approaches

Incentive schemes: Government can provide direct and indirect incentives for individual migrants and /or their associations – to channel remittances to productive investment. They can encourage remittance related productive-investment in home country. These are likely to work to increase flows: if incentive schemes are sound and attractive and if prior reliable and standardize data are gathered on remittance flows and emigration. These incentives could also be applicable to intra-country remits, which also have great development impact.⁵⁰

The government could set up schemes that offer preferential access to imports of capital goods and raw materials to encourage returning migrants to set up or expand business firms, especially in backward areas and export processing zones. The potential risk involved is that potential access to capital goods might encourage capital-intensive production, thereby

⁴⁸ *Id.* at pp. 41 and 44. (Ghosh, Myths.)

⁴⁹ IFAD (2006), *Remittances: strategic and operational considerations* - Annex to IFAD Decision Tools for Rural Finance, p. 29. Document available at <[http://www.ifad.org/ruralfinance/pub/remittances.pdf\(05/04/2013\)>](http://www.ifad.org/ruralfinance/pub/remittances.pdf(05/04/2013)>).

⁵⁰ Remittances flourish in a good policy environment and so understanding the complex matrix is essential. The regulatory policies and incentive schemes should take into account the national capacity and wider external context and their interrelatedness. Policies are too often constrained by inadequate and unreliable standardized data on emigration and remittances. The New Initiative of International Working Group G7/8 leader is a realization of this complex mechanism and their recommendations can be used by Governments to guide policy reviews.

inhibiting job creation in countries suffering from inequality. This may however be outweighed by the reality that most of the firms involved in this service are small scale and operate with low level of technology. Factor costs distortion remains a risk though.⁵¹ In Asia and Africa, the abolition of exchange rate and capital market controls, increased remittance flow through formal channels. India, in 1999, was able to increase remittance flow through formal channels by liberalizing exchange rates. Selling “Resurgent bonds” to expatriates under attractive conditions, such as, freedom from exchange rate risk, exemption from international wealth and income tax, and carrying attractive interest (eg. Resurgent Indian bonds) – may also be good options.

Policies supporting the participation of Micro-Finance Institutions (MFI), credit unions and saving banks, including postal saving schemes, can assist in creating greater access to remittance service in rural and remote areas. Government can improve conditions under which they operation and take part in providing remittance services, by amending existing regulation to allow these Small and Medium Enterprises (SME) and microfinance institutions (MFI) greater full participation. This could be by allowing them to receive foreign exchange and limited access to national clearance and settlement system. Future flows of remittance can be used as collateral to improve the rating of commercial (sub-sovereign) borrowers.⁵² Formal financial institutions could extend their own facilities to re-establish links and partnerships with public and private institutions, MFI and credit unions that are easily accessible to migrant households, having already existed in rural areas where these formal institutions do not operate. This can uplift the poor and marginalized. A Sharing Payment system would also assist to avoid duplication of efforts and assist with non-exclusive partnerships between remittance service providers and existing retail networks. It could facilitate the expansion of remittance service.⁵³

Turkish Government designed special projects linked to remittance. By this, migrants were required to invest in their country of origin. There is however, the problem of long-distance management of these projects. To counter this problem, using Africa as an example, Gubert suggested a good approach that would require “host and home” country co-operation⁵⁴, that, host country Government can devise immigration policy which allows resident migrants to return to their homes for periods required to set up productive projects and to travel back and forth, building up more assets and improvement skills.

Both remittance receiving and sending counties need to co-ordinate and co-operation (mutual interests and benefits), acting in concert within a coherent policy framework to increase official remittance flow and harness their full development potential (leveraging them). They need to be aware of the 5 groups of external variables affecting remittances and counter negative effects - in policies reform and initiatives.⁵⁵ While the Diaspora has emotional bonds to home country,

⁵¹ Puri, S., and T. Ritzema (1999), “*Migrant worker remittances, micro-finance and the informal economy: Prospects and issues*”, Working Paper 21, Social Finance Unit, Geneva, ILO.

⁵² Several banks raise cheaper and longer-term financing from international capital markets via securitization of future remittance flow.

⁵³ *Id.* D. Ratha. 2007: MPI at p. 9 -10.

⁵⁴ Gubert, F. (2005), “*Migrant remittances and their impact on development in the home economies: The case of Africa*”, Migration, Remittances and Development, Paris, OECD.

⁵⁵ Spatafora, N. (2005) “*Worker remittances and economic development*”, World Economic Outlook, Washington, D.C., IMF; and *Id.* Myth at p. 47. These are: **(i) economic activity in host country; (2) economic activity in home country ; (iii) economic policy and institutions in home country;(4) general risks in home country; and (5) investment opportunities**. Within these 5 variables are issues of investment friendly climate, corruption, political and macro-economic stability. As Spatafora noted, the effects of these external variable on the mode and amount of transfer vary depending on the intended purpose of the remittance. For example, remittance aimed macro-economic through business investment and not meant

such nostalgia might not surpass the profit-motives in investment, where the risk of investments is too high. Remittance-recipient countries need to provide a friendly economic environment through: sound and stable macro-economic policies that include a good degree of market openness; stable exchange rates; basic physical infrastructure; improved market integration; flexible institutions - financial and others; transparent legal systems; and good governance (improve overall investment climate). Governments could develop financial systems, institutions and invest in physical and human capital. **This sound atmosphere should enable recipient country to benefit from external stimuli needed to attract and used remittances as develop capital.** For example, Taiwan Government provided planned infrastructural incentive to companies relocating to or establishing new ventures in a particular zone – Science Industrial Park. Likewise, host-country (affluent /developed states/governments) can help in the move of volume and value of official remittances to developing recipient countries. This can be done by creating opportunities, such as developing legal labor framework for migrants' legal entry into their territories, which are in accordance with host-countries' labor market, social security and demographic needs. They can also provide guarantees for bonds they issued against remittance flows, as collateral.⁵⁶

Programs geared towards encouraging remittances through formal banking channels can improve development impact of remittances.⁵⁷ They encourage more savings and have the effect of enabling better matching of savings with investment opportunities. Remittance received as cash are less likely to be saved than those received through bank accounts. Banks in collaboration with Governments can introduce better remittance services to attract new customers for their deposit and loan products.

Microfinance Institutes can use history of remittance receipts to judge credit history/worthiness of potential customers – allowing more access to loan and financial services to otherwise “unbanked” rural and poor population. In collaboration with this, migrants' banking access could be increased by allowing origin country banks to operate overseas and providing identification cards to them. Mexico for example, has “Mexican matricula consular” – which is accepted by banks for migrants to open an account.

Further, the government can improve physical and social infrastructure and infuse new financial and social resources to pave the way to growth of small business and modernization of agriculture. This in essence creates a dual link between the recipient community and migrants. Institutions may also be created specifically to foster remittance and development and to be the liaison intermediary between the Governments and migrants. Such institutions could be the *Local Ministry of Remittance Development or Institute of Remittance Development*. That unit can co-ordinate, monitor and mobilize the social and financial resource of migrants within a transnational framework for local and regional development in home country. The state and Diaspora would come together, combine their resources and channel same for promotion of development. “One-stop-shops” could be created as contact and information centers, albeit for basic, but not specialized advice. These shops could bridge the gap between poor project designs and inadequate technical, institutional and infrastructural support - for remittance to back small enterprises.

for personal household consumption and family budget may be affected by variable of corruption and exchange rate variance.

⁵⁶ Id. Ghosh (2006) Myth, at pp. 88 and 101.

⁵⁷ **Taxing Remittances** has been viewed as a **bad policy option** due to its tested negative effects of raising remittance costs, thus hurting poor migrants and their families and driving remittance flow underground.

Market integration can be strengthened, thereby linking remittance-receiving villages and towns with other parts of the country. Increased flexibility in the supply of agricultural supplies and other production inputs should help transmit the remittance-induced growth impulses to other parts of national economy. This should then reduce the risk of inflationary pressure due to supply constraints in remittance-receiving villages and towns.⁵⁸

Reducing remittance costs

Although remittance costs are trending down, they are relatively still high and regressive. The statistics are that the average costs through the top 3 money transfer operators (Western Union, Moneygram and Dolex), can be as high as \$16 for \$100 and \$18 for \$200. These fees are highly regressive because smaller remittances sent by poor migrants cost more per dollar sent. Typically, a poor migrant sends about \$200 per transfer. South-South remittance costs are higher than that of North-South, yet due to capital and exchange controls, South-South remittances fees are charged at both ends. In this context also, between 1/3 - 1/2 of the total recorded remittances that are being sent to developing countries are done via downstream or through informal channels.⁵⁹

Informal flows of remittances do not add to the official foreign exchange reserves of recipient country and are not likely to be geared towards development. Interestingly though, should transaction costs be reduced to between 2 to 5 % and dual exchange rates be eliminated, remittances through formal channels would increase by at least 50%.⁶⁰

Two ways to reduce remittance costs are: (i) Reducing remitter's fee, thereby increasing disposable income of poor migrants, boosting incentives to send more money home and encouraging the use of formal remittance channels; and (ii) Increase access to banking and strengthening competition in the remittance service industry. Banks tend to provide cheaper remittance services through money transfers operations. New entry of market players can be facilitated by harmonizing and lowering bonds and capital requirements and regulations. Governments may address this by removing banking licenses for specialized money transfer operations.⁶¹ Banks may also allow home communities to open non-resident accounts abroad in national bonds. Further, simplifying transfer procedures may also help reduce transaction cost and increase volume and value of mainstream transmitted remittance. Governments can publicly endorse banks that specifically try to reduce transaction cost or provide them with other incentives, like reduced tax.

Governments building capacity

Many Governments have been involved in capacity building of its migrants' associations and transnational Diaspora. These associations are linked with the socio-economics of origin country. Such efforts spread development impact of remittance. The Diaspora become pro-active and mobilize funds from external sources in host country, leverage their own, collectively pool funds and remit same towards supporting home country community-level development and remittance-based start-up projects. Their activities range from supplying consumer goods, purchasing of farming equipment, to income generating business ventures. The benefits of the

⁵⁸ Id. Myths at p. 98

⁵⁹ Id. Myths at p. 96.

⁶⁰ A study that made this finding was highlighted in Freund, C., and N. Spatafora 2005 "*Remittances: Transaction costs, determinants, and informal flows*", Washington, D.C., World Bank.

⁶¹ Id. MPI, at p. 10.

development projects must be widely shared within the community and not monopolized by a powerful few. The transnational Diaspora and migrant associations also engage in a wide-variety of remittance-related business activities such as skills and knowledge-intensive services and micro-enterprises⁶². These activities and approaches ensure the projects' and businesses' long-term sustainability, viability and success. Madeira Island (Portuguese region once deprived by mass emigration-1970s) is an example of the positive impact of migrants' private investment in recovery of economy. Local community groups in home country must be mobilized to co-ordinate with these migrant associations and play a part in selecting projects that are geared towards their needs. Like all relationships, Diasporas sometime have civil conflicts with home country community actors, in relation to co-ordination or decisions surrounding the remittance-recipient investment projects. Strategic Constructive Dialogue mechanisms may be employed by the Diaspora leaders, in conflict resolution and peace building processes.

The following are a few cross-continental examples of successful partnership with the Government, Diaspora, Migrants' Association and needy communities, resulting in development:

- **LINKAPIL, in the Philippines** - Government built community association in local areas. The Philippine government launched a program, which specifically encourage migrants abroad to support development projects at home leading to the improvement in infrastructure, education and health.
- **Co-Development Program** - French Government provided technical and financial support to associations of migrants that were involved in development activities in country of origin – to build schools, health centers and rural homes and to promote rural tourism, small-scale enterprises, training and research.
- **Latin America “Hometown Associations (HTAs)”** – Migrants from Dominica Republic, Haiti and Mexico set up hometown associations in the US to pool their financial and social resources for improving conditions in hometown. For example, in the US, there are about 700 of such groups of Mexican immigrants. The “Matching-funds” program works well with these associations.
- **Governments may provide matching funds to encourage investment by migrant associations.** A successful case is the Matching-fund programs in Mexico, known as Mexico’s “three-for-One deal”. For each peso migrants / migrants’ organizations contribute to community development funds, the federal, state and local governments will match such investments. This may be used to effectively leverage small volumes of collective community projects. The caution however is that, this kind of incentive may not be a scalable program and may divert other local funding realities. The local community groups including resident families of migrants should also be involved in selecting the projects, which should respond to their genuine needs. By 2002-2004 : more than 3000 projects in new roads, schools, water systems and parks were created, which benefitted 1 million inhabitants in 23 Mexican states.⁶³ A recent improvement to this scheme is the “Four-for-One deal”, where the national banks – would play a part in matching migrants’ investment also. These matching funds for local development projects may be created under partnership arrangements worked out with hometown associations and Government such as was the case in El Salvador. The Social International and

⁶² Id. Myths at p. 99

⁶³ Inter-American Development Bank (IADB), 2004, “*Sending Money Home: Remittances to Latin America and the Caribbean*”, Washington, D.C., IADB.

Development Funds have also supported a number of projects by hometown associations.

- **Guyana Watch: Guyanese migrants in Queens, NEW York.** They provide outreach medical services.

Additionally, it is recommended that **data collection be improved**. The data should be assessed on the basis of net remittances receipts, not gross. Statistical Institutes may lead this charge. They can specifically compile statistics of recent trends, such as decline in transfer costs, including cross-country transfers via different financial agencies and for transparency and public awareness, make the findings public. Such actions should enhance market performance and competition for remittance service.

Policy and Law Reform

The regulatory environment needs to be carefully examined by governments to ensure their conduciveness to remittance development. Regulations on money transfers, anti-money laundering and terrorism financing, foreign exchange trading and deposit-taking are crucial for remittances. The following have also been noted by the UN IFAD, as **Regulatory constraints or barriers to remittance service providers**⁶⁴: (i) provision of savings services; (ii) provision of remittance services and to the trade in foreign currencies (which may be necessary for international money transfer systems); (iii) costs imposed because of the need to comply with regulatory requirements (e.g., systems, reporting, data archiving); (iv) absent or weak links to networks in sending markets; (v) lack of operational capacity to provide remittance services; (vi) liquidity and security risks in handling money transfer payments. Government initiatives should find ways to reform regulations and laws to, as best as possible, minimise these constraints.

It might be necessary to review, reform and enact Laws to reduce service barriers and prohibitive remittance / transfer costs. These laws relate to: (a) **Anti-money laundering regulations**. They are needed to counter financing of terrorism and consumer fraud, but should be balanced to not make it difficult for money service businesses to operate account with corresponding banks. They should also not stifle remittance flow or raise costs of transfer. Currently the ***regulations are unclear, unsystematic and not harmonized***. Governments should support legislative and Regulatory reforms that increase transparency compliance guideline on Anti-money laundering and counter-financing of terrorism regulation; (b) **Laws that establish Disclosure of remittance fees from remittance service providers**: They should also be publicized. It should help remitters make informed choices and the poor migrants should also appreciate the financial education. It in turn should encourage competition; (c) **Securitization laws** that are favorable to remittance as development capital: These provide incentives to organized financial institutions to help securitize remittance flow and provide access to external finance; and (d) **Local Immigration and Citizenship laws**: These could be reviewed to, where lacking, give dual nationality or similar status to the Diaspora. Such empowerment is crucial as the Diaspora need to be more integrated into the world economy, being potential partners and catalytic agents for home country development.⁶⁵

⁶⁴ Id. IFAD (2006), *Remittances: strategic and operational considerations*, p. 27.

⁶⁵ Id. Myths, at p. 99, provided some basic guidance in this area.

Governments can encourage regulatory impact assessment and build local capacity of Rule of Law and development advisors to conduct such impact assessments. They can also utilise the research findings, materials, resources and facilities of the following key International Agencies that are working to establish remittance regulatory framework and operational guidelines for formal and informal remittances sectors, core remittance principles, voluntary standards for services, costs, access to banks and money transfer companies, and to co-ordinate international efforts in compiling data on remittances. These are sources of guidance for regulators and governments in policy reform and are akin to soft-laws:(i) Financial Action Task Force on Money Laundering (FATF)⁶⁶;(ii) Inter-Agency Task Force on Remittances (IATF); (iii) International Monetary Fund (IMF) and IMF Committee on Balance of Payments Statistics; and (iv) Multilateral Investment Fund (MIF) in the Inter-American Development Bank (IDB).⁶⁷

Transferring remittances using mobile phone technology is seen as a cheaper means of transferring money. **Governments can ensure energy and telecommunication sector, laws and regulations are updated and conducive to innovative technological investment and entrepreneurship** and, in general, encourage these kinds of technological innovations. Remittances have reduced percentage of poor people in Uganda and Ghana by 11 and 5 % respectively.⁶⁸To this cause, Government can **Initiate and Sponsor NGO and Financial Institutions – in hosting International Forum and business models and technology Fairs on Remittances.**⁶⁹

Another initiative is to **partner with and assist in funding international development financial institutions like IFAD, that are involved in financing and partnering with projects / NGOs - focusing on poverty eradication in rural communities** through promoting access to remittances, **linking it to rural financial services and products and developing rural investment**

⁶⁶ Initially, the purpose of **FATF** was to function as a policy-making inter-governmental body that would develop and promote policies to combat money laundering both nationally and internationally and mobilize the political will necessary to enact national legislative and regulatory reforms financial system. Available at <[http://www1.oecd.org/fatf/\(05/04/13\)>](http://www1.oecd.org/fatf/(05/04/13)>).

⁶⁷(i) **Inter-Agency Task Force (IATF) on Remittances** is one of key actors in remittances. It was formed at the Conference on Migrant Remittances, organized by the Department for International Development (DfID, UK) and the World Bank in London in October 2003. Among others, it coordinates international donor responses on remittances. IATF also disseminates data on remittances through a web site; (ii) Likewise, **the International Monetary Fund (IMF)** research findings and documents should be utilised in making policy and regulatory reforms regarding remittances. Governments should develop good rapport with this group as a source of information. The IMF has worked on identifying good practices in order to **construct a regulatory framework for remittances and develop operational guidance for the regulation of the informal remittances sector as part of the IATF.** The **IMF Committee on Balance of Payments Statistics** has initiated work to **strengthen international guidelines for the reporting of remittances and to support enhanced international coordination so as to improve the compilation of data on remittances;** and Further, (iii) The **Multilateral Investment Fund (MIF)** in the **Inter-American Development Bank (IDB)** is involved in **facilitating the transfer of remittances in Latin America and the Caribbean (LAC).** In addition to **examining the high transaction costs of remittances,** MIF has also emphasized the related **need for a modern regulatory and financial infrastructure, increased competition to lower the cost of remittances and additional services for the unbanked (poor/rural).** Along these lines, in 2004, MIF published the Lima Statement, which detailed recommendations for the remittance market in LAC.

⁶⁸ IFAD's, *Remittances: Sending money home.* (2009) Factsheet available at <<http://www.ifad.org/pub/factsheet/remittances/e.pdf>(05/04/13)>

⁶⁹ Examples: The UN's IFAD was instrumental in **2009 International Forum on Remittances, 22-23 October 2009** in Tunis. The forum was mainly focused on remittances to and within the African continent. Aimed at raise awareness among different stakeholders in the remittance market and highlighting the potential benefits that remittances can bring to the social and economic development of the African continent. **Remittances, business models and technology Fair** run parallel to the Forum to allow private-sector entities and other stakeholders to exhibit their products and services. The fair served as an opportunity to interact with other key players in the remittance market, involving the public, private, and civil society sectors. Source Available at : <[http://www.ifad.org/events/remittances/\(05/04/2013\)>](http://www.ifad.org/events/remittances/(05/04/2013)>)

opportunities for migrants organizations. IFAD's multi-donor Financing Facility for Remittances is a US\$15 million facility that was established in 2006. It awards grants of up to US\$250,000 per project. The projects selected are focused on three major activities: (i) Promoting access to remittances in rural areas; (ii) Linking remittances to rural financial services and products; and (iii) Developing rural investment opportunities for migrants and community based organizations.⁷⁰

Other policies with the needs of the stakeholders in mind should **facilitate migrants' transfer funds through a fast, efficient, competitive and secure financial system.** Recipients, at the other end, should, through these policies and legal reforms, be given greater and easier access to deposit accounts, so they can save, build credit histories and invest in their future. Other supportive services like financial education and more advanced financial services can provide recipients with the enabling tools to achieve sustained financial independence.

Remitted money kept 'under the mattress', instead of at formal banking and microfinance institutions, are not being mobilised or leveraged to benefit other entrepreneurs or to become an engine for wider local development or wider poverty reduction. The alarming statistics noted by IFAD is that 30-40% of remittances are sent to rural areas that are usually lacking financial services.⁷¹ This drives up the cost of receiving remittances. **Policies, Laws and regulations should be reformed to support microfinance enterprises and partnership and links between formal banking institutions and rural based private and public small enterprises** – to widen remittance financial services and competition. By way of example, Governments could support and enable banks and other traditional banking service providers to create more efficient and less expensive ways for migrants to send money home to rural areas, as was done in Guatemala, in the *IFAD-funded Guatemalan Salcajá Cooperative*. It was an online, international account-to-account money transfers system, where the profiles and needs of remitters and recipients were studied by co-operatives and matching marketing strategy was designed to increase membership among remittance recipients.⁷²

The upshot, whatever policies, initiatives and incentives are being employed by the Government, maximising the potential growth effects of remittances for developing countries - requires a combination of solid macro-economic management and development strategies. These should involve the whole economy, stakeholders and be context-specific.

⁷⁰Id. IFAD's, *Remittances: Sending money home*. (2009), at p. 4; IFAD's multi-donor Financing Facility for Remittances is funded by the European Commission; Inter-American Development Bank; Consultative Group to Assist the Poor; Government of Luxembourg; Ministry of Foreign Affairs and Cooperation, Spain; and United Nations Capital Development Fund. The UN Capital Development Fund is assisting. IFAD is exploring more innovative ways of working with remittances. In francophone West Africa, postal services are more widely available in remote rural areas than traditional banks. IFAD is also working with the Universal Postal Union to provide remittance services in rural areas using post offices. The Facility increases economic opportunities for poor rural people by supporting and developing innovative, cost-effective and easily accessible remittance services.

⁷¹ Id. IFAD, at p. 2.

⁷² Id, IFAD at p.2.

CHAPTER 5

(Diego Navarro, Mexico)

Mechanisms to facilitate remittances for development

Remittances are considered as the most tangible links between migration and development.⁷³ The effect and importance of remittances to the governments can vary depending on its contribution to the GDP. It represented more than 10% of 24 countries and equaled to more than 20% of 9 countries GDP in 2010.⁷⁴ In some other cases, remittances can account for more than 30% of its GDP.⁷⁵ This is most like to determine its place in the governmental agenda.

The recipients will devote around 50-70% for the direct household consumption, goods and services; 20% for health and education; and the 10% remaining for savings and investment.⁷⁶ The impact of these expenditures will contribute positively to advancement of the Millennium Development Goals. The last 10%, however, will have larger and more sustainable multiplier effects because they create income streams.⁷⁷

Therefore, remittance recipient countries should evaluate the importance of the world's largest poverty reduction program⁷⁸ and make the necessary adjustments to help its people overcome the barriers involved in the remittance process and create a suitable environment that leverages the Diaspora for development.

Remittance-recipient countries can improve the overall conditions of the remittance's environment by making changes in their structures and fitting the user's needs into their actions. These changes involve putting in place mechanisms to facilitate and incentivize remittances for development, and the creation or reform of institutions for migration and related activities.

The mechanisms to facilitate and incentivize remittance for development have to be well designed in order to reach the Diaspora. The people leaving abroad might not have contact with their government in many cases, and a bad relationship between these two actors can hinder the remittance flow for development. This brings up the importance of the government's representation in the remitter host-country and their relationship.

The consulates are the main interlocutor with the Diaspora and, therefore, the main program implementers. All actions taken in the government will reach migrants through them. Anticipating, we can say that the success of any action taken will depend on the quality of the relationship between expatriates and their government representation. But consulates will not only depend on their geographic location to reach their expatriates. The quality of their services and the sensibility of their personnel will have an important effect on them.

⁷³ The Diaspora handbook pg. 113

⁷⁴ Idem

⁷⁵ The FFR Brief, IFAD. Pg 13

⁷⁶ UNCTAD. Maximizing the development impact of remittances; note by UNCTAD secretariat

⁷⁷ Idem

⁷⁸ Op. Cit. 14

A primary reason to emigrate is poverty, which itself involves the feeling of insufficient institutional programs to mitigate the basic needs of the communities (mainly associated with corruption) or limited presence of the government, if any. And these situations generate distrust in the government. Hence, the feeling is carried with them through their journey and there is no reason to change same, just by crossing a border.

Therefore, one of the consulate's challenges is to build trust with their migrants before delivering opportunities to invest for development, a task essentially associated with government's personal obligation. We have now identified one of the two steps for enabling any mechanisms or programs that fosters migrant's participation in development.

Increasing the migrant's trust can be done by improving the consulate's primary function: to protect and improve living conditions of the migrants abroad. This would conventionally be done through providing information on legal assistance, labor, repatriation, health system, emergency phone numbers, education, and many other related services. The services provided to the users will vary on their needs and conditions, and there are *extraordinary* actions that can be taken to fulfill their needs.

Actions for leveraging diaspora for development should be done through creative mechanisms that overcome barriers. They can be taken in any stage of the remittance flow and the practices will depend on specific needs. For instance, some governments⁷⁹ have managed to provide Consular ID's that act as official for some host-country's banks and allow migrants to open bank accounts and carry out transactions, filling in the needs of those migrants regardless of their migration status.

Among the consulate's obligations we find educational programs. Some government's representation offices provide native language books to their expats, some other give history and language courses and sometimes it goes to a further level of education. This creates an opportunity to introduce educational programs focused on financial literacy and money management skills that are useful when promoting investing for development.

The following step for consular activities should involve the integration and sensitization of the migrants for developing causes. Hometown associations, cultural gathering and community houses are mechanisms and activities that promote inclusion of the diaspora and their link to their home countries. As we will see further on this paper, the extension of the programs vary depending on the governmental agenda. There are examples of governments that intend to reach second and third generation expats. With the inclusion of migrants abroad, the consulates can sensitize the community about the shortage of resources and the importance of their participation in the development of the least favored communities.

These practices give an insight of how governments can reach their migrants abroad and the importance of having a well-established interaction with them. Although, as we said before, most of the activities are planned and developed at the home countries and the importance of having effective information and feedback from people suffering from shortages are paramount.

Governments should focus on creating mechanisms that facilitate financial practices, alleviate remittance flows, incentivize the allocation of money from remitters to specific national development programs, and improving the local infrastructure and productive capacity. The number of tools can be as infinite as the creativity of the policy developers. Some commonly

⁷⁹ As is the case of : Argentina, Brazil, Colombia, Dominican Republic, Ecuador, Guatemala, Guinea, Mali, Mexico, Nigeria, Pakistan, Peru and Senegal.

used instruments that have proven to be immensely powerful are the cooperation and trade agreements – bilateral, regional, multilateral, etc. Innumerable examples of incentives and mechanisms can be named in the extensive field for immigration and leveraging the diaspora for development, some with different impact, some other that complement each other.

In facilitating financial practices, some countries have encouraged financial institutions to relax their credit provision requirements to judge creditworthiness. Financing small business projects through collateral free loans⁸⁰ can be a good mechanism to facilitate the recipients to access the financial services. Admitting the remittance receipts as a proof of continuous income could be a good practice to foster development in communities.

Transparency and information flows mechanisms can alleviate remittance flows by forcing competition. A remitter that is being able to compare the prices among the services to remit money can help make better decisions and promote using formal channels. It is generally agreed that remittances transferred through formal rather than informal systems are more likely to be leveraged for development. Lower transaction costs derive in greater benefits and more development opportunities to the recipients. Additionally, a government should focus its mechanisms to reduce the barrier that can increase the risks or costs of sending home remittances and those that impede its flows.

The Mexican 3x1 program deserves special attention for successfully encouraging the remitters to invest in community development projects. In this program, the three levels of government match one dollar each for every dollar that a remitter intends for community development programs. Its success can be represented in numbers. The program started with a 5 million dollar budget in 2002 and has raised more than 300 million⁸¹, plus a loan from the Inter American Development Bank for \$22 million. Until 2010, 12,000 projects have been founded, averaging more than \$28,000 per project.⁸²

A government should also focus on creating infrastructure for financial activities. Increasing the presence of banks, post offices and financial institutions will contribute to the incorporation of users to the formal channels. The proximity of these services to the recipients has a positive impact at both, the macro and the microeconomic level. Money through formal channels will be easily saved and more protected, while the increasing numbers of remittances into the national finance will allow governments to borrow more with smaller interest rates.⁸³

Co-operation and trade agreements between countries have shown to be a good mechanism to facilitate and incentivize remittances. Governments should emphasize on the celebration of these with its migrants host-countries, and regions and with public and private enterprises.

The Indian government presented a \$500 billion national infrastructure program to the diaspora in more than 50 countries. The Indian Diasporas will participate through a Public-Private partnership that will include knowledge and financial contributions from them.⁸⁴

Government programs that bear inclusion and concern towards its migrants are a beneficial way to build trust and increase their potential to contribute to development to remittances. Mexico

⁸⁰ By 2010, Bangladesh had announced the creation of an expatriate welfare bank to provide collateral free loans, in particular to returnees, as well as support for investment in productive sectors of the economy.

⁸¹ Center for Global Prosperity. Index of Global Financing and Remittances 2012. Hudson Institute

⁸² <http://3x1.sedesol.gob.mx>

⁸³ Ratha, Dilip. Leveraging Remittances for Development. MPI 2007 www.migrationpolicy.org

⁸⁴ Op. Cit. 13

and the Philippines promote and give access to social benefits (security) to their migrants by allowing them to contribute to the national pension and healthcare schemes regardless of their access in destination countries. Encouraging coverage and payments to the social security system to workers abroad could incentivize social investment in pension and health insurance, with benefits upon retirement.⁸⁵

Finally, all actors have the obligation to use their resources and creatively to design what is best for leveraging the Diaspora. Being aware of new technologies can make a difference, especially when the home country cannot afford expanding infrastructure.

Institutions to create / reform

High remittance receiving countries will accordingly place migration and remittances at the top of the government's agenda. Similarly, depending on the dimension of them, the government will have institutions in place to deal with those matters. Some will give life to ministry institutions, while others will make up space in the existing ones.

Having an exclusive institution for the matter is not a rule, although it is common that countries build up specialized institutions to manage all related issues for migration, including, remittances. What varies is the location level in the governmental structure, which most of the times, coincides with the preponderance given in the agenda or their proportion of the GDP.

Consequently, **there is no rule to follow when creating or reforming institutions that will manage certain agenda.** As when addressing any other issue, a well elaborated assessment will result in the evaluation of the context of the specific space to be analyzed, the particular needs and resources available. No distinction can be made when creating institutions that approaches migration and remittance related issues. **There is no “one-size-fits-all” guide to follow. A successful institution will result from a good analysis of the needs of the stakeholders, the resources and information available, and a clear and accurate determination of the goals for which it is created.**

The hierarchy, mandate and effectiveness are determinant factors that will influence within and outside the government, but are also elements that closely relate to the institutional location in the structure. Another factor to consider is: how extensive and ambitious a country wants to be? Some governments are just concerned with dealing with their citizens abroad, while others will target specifically, permanent residents, naturalized citizens and second and later generation of expats.

Following these ideas, **institutions can be materialized into different bodies, from ministries to local departments and sometimes embodied in quasi-governmental organizations.** All different organizations will have a different weigh on the matter. It is also important to note that these are not exclusive of one another, and a country can have different institutions dealing with the same issues, that complement each other.

The highest ranked institution identified, takes place at the **ministry level.** These reflect an important place for migration and remittances in the governmental agenda. In the majority of the cases, they are created when the traditional ministries, such as labor and external affairs – cannot manage the expatriate portfolio in all its dimensions or they lack of coordination. The benefits from this particular institution are that they regularly have a more consistent budgetary

⁸⁵ Idem.

allocation and enjoy more support from the top of the government. The countries that have ministry level institutions are more likely to have an explicit development-oriented mandate.⁸⁶

Some countries opt for a hybrid type of institution.⁸⁷ These have proven to be more cost effective because they elevate governments' Diaspora portfolio, while avoid administrative and legislative expenses involved in creating a new ministry.

Institutions for Diaspora can also be found at a **sub-ministry level**.⁸⁸ These institutions have been placed under different ministries, namely: Human Rights, Foreign Affairs, Interior and Public Security, and Labor. They are criticized however, as they often follow the mandates and priorities of the mother agencies. It was also found that no Diaspora institution was directly placed under a government body that is mainly responsible for development planning. The disadvantage is that, the lower they fall on the institutional hierarchy, they lose independence to deal with the issues, and less importance is given them, from the top-level government.

There are as well, different government institutions at the **national level**⁸⁹ that often take the name of councils, committees, offices and inter-ministerial teams. They are strategically situated and have a fairly influential position within the government. The most important advantage is that, they habitually co-ordinate actions on both the executive and legislative fronts, as well as the local governments.

Another type of institution is the one at the **local level**. They are said to be perfectly positioned to design programs in keeping with the needs and opportunities of the people on the ground.⁹⁰ These institutions can also complement activities of higher-level institutions and can easily share the cost of engagement. A particular advantage is that they can easily be monitored and can therefore, be held accountable.

Foundations, Councils and NGOs can play a part, as **quasi-governmental institutions**. These are useful for origin countries, especially in contexts where governments, for whatever reason, do not want to be seen as intervening too much in the affairs of host countries. Another advantage is that they are most likely to be representative of the Diaspora and take positions against governments.

In the premises, it is more important to focus on establishing coherence and coordinated policies and regulations to facilitate remittance flows for development, rather than focusing on institutions to be created.⁹¹ When created however, the institutions should have clear and aligned policy goals and priorities that are geared towards strengthening their regulatory and institutional capacity. It is also quintessential that there are monitoring institutions and personnel to ensure that policies and programs are aligned to the national development strategy, to ensure success and sustainability.

Apart from governmental institutions dealing with the political portfolio of the Diaspora, there are other important institutions for leveraging the Diaspora for development. These institutions will not only impact those living overseas, but also create a flow of internal (or national) remittances

⁸⁶ Op. Cit. 72

⁸⁷ Idem. 75

⁸⁸ Idem. 76

⁸⁹ Idem. 79

⁹⁰ Idem. 82

⁹¹ Op. Cit. 14

from the cities to the rural areas. If they are not a part of the government's body, they have to at least, be regulated and monitored by it.

Financial services institutions are perhaps the most important intermediaries in the remittance flow system. Some countries have taken this role by using national banks and financial institutions as formal channels for remittance flow. Some micro-financial institutions are government funded and have a social goal, rather than profit-motive. If they are not part of the governmental structure, governments should ensure their regulation – to ensure more transparent, fair, accountable and competitively low costs.

User protection institutions, such as the National Commission for the Protection and Defense of Users of Financial Services (CONDUSEF) in Mexico, protect users from abusive practices and make practical recommendations for remittance transfers. The CONDUSEF's webpage has an actualized comparative chart of fees from a wide range of transfer companies. It also makes financial users aware of new forms of fraud involved with financial activities. The institution functions based on two approaches: (1) **preventive** (orienting, informing, promoting financial education); and (2) **corrective** (providing attention and solution to complaints presented by users of financial products and services).⁹²

Finally, a country must have a **National Statistical Institute** that, among other functions, collects precise information on remittances to identify trends, flows, channels and other important information that can lead policymakers to plan and implement sound policies.

In summary, **there is no particular guide in the creation (or reform) of mechanisms, policies and institutions to leverage Diaspora for development.** However, an analysis of case studies can be insightful as to actions taken in the past, with an understanding of the policy context within which they were taken. There are many lessons to be learned from those experiences. Other possible **sources of guidance** are the websites, manuals and toolkits of international actors, such as the United Nations Conference on Trade and Development, the Migration Policy Institute, IFAD, and the Inter-Agency Task Force on Remittances. They significantly deal with migration, Diaspora and remittances and have made important contributions to understanding the subject. Along with other, they spearhead research, the collection of data, coordinating efforts, and the production of literature, with pragmatic approaches, which may be of some guidance in creating context-specific policies – to leverage the Diaspora and tap into their remittances for development.

⁹² <http://www.condusef.gob.mx/index.php/english>

CONCLUSION

The international development architecture is dynamic; its actors, goods, approaches, games and instruments are changing. Official development assistance (ODA) and the public funds of developed countries that are being channeled towards developing countries - are proving inadequate, while alternative sources of finance, especially remittances, are increasing in quantity, importance and impact. The global development agenda calls for diversification of finance sources. Alarming, in 2009, remittances were equal to three times net ODA to developing countries and were projected to cumulatively surpass US\$1.5 trillion by 2014. Remittances to developing countries surpass foreign direct investment and development assistance combined with over US\$300 billion a year.⁹³ They are also stable sources of private finance that may be carefully tapped for the purpose of development. The Diaspora is seen as a potential partner and agent for catalytic development. They are shaping the global architecture regarding remittances and development. Major actors such as Governments, NGOs and Corporate sector are now aligning themselves to the needs of this potential client/partner. The aim is to mobilize the Diaspora and channel their remittances for national development, to expand “freedoms” (A. Sen, *supra*). The ultimate is to integrate the Diaspora and their investment into the wider economy and to encourage intra-country remits also.

Leveraging remittances has multiple socio-economic development benefits, which could assist in the fight against poverty and meeting several MDGs. Remittances can help to develop small enterprises, local communities and assist in the building of social assets and facilities and various small infrastructural projects. Remittances can be due, both to inter and intra-country migration and each type has potential to impact positively on national development. Policies, mechanism and supporting institutional, legal and regulatory framework / reforms, which are used to ensure remittances are channeled for development - may differ based on the source of the remittance, be it intra-country or international. In any event, policies are country “socio-economic context-specific” and there is no “one-size-fits-all” model or formula.

Policies are too often constrained by inadequate and unreliable standardized data on emigration and remittances. There is therefore a need for data collection, evaluation and dissemination to spot trends in remittance flow, transfer fees and migration, and to plan for and against their effects. Such information can heighten competition and market performance. Remittances flourish in a good policy environment and so, understanding the complex matrix is essential. The regulatory policies, approach and incentive schemes should take into account the national capacity and wider external context and their interrelatedness.

Despite the growth in significance of remittances as a source of development finance, its instability and risks, such as vulnerability to sudden external shocks and distortions in economic priorities, indicate that remittances should not be seen as a substitute for development aid nor to detract from commitments made by developed countries at the Monterrey Conference, for ODA and development efforts, rather, be deemed as a supplementary source of finance - which can be channeled for personal or national development.

When remittances move through informal or underground channels they do not contribute to official foreign exchange reserves nor can be geared to the development policy and priorities of

⁹³ IFAD, *Remittances: Sending money home*, Factsheet (2009) available at <<http://www.ifad.org/pub/factsheet/remittances/e.pdf>(05/04/13)>, p. 3.

the countries. Formal institutions at both the sender and recipient ends are not in and of themselves adequate to ensure the transfers through these channels. Effective networking arrangement and the inter-institutional links between them, and the removal of legal constraints, (procedural, practical and technical difficulties and complexities) - are necessary to ensure transfers.

Leveraging remittances requires a multifaceted, all inclusive approach. It takes into account all stakeholders and their interests and an understanding of the market matrix in this context. Such understanding should help Government Policy makers and non-state actors create the right incentives, initiatives and regulations to minimize remittance service barriers, while at same time maintain adequate regulation to ensure competition and adequate access to the service to even the poorest of the poor rurally based people. They are usually isolated from formal financial services/channels. There is a “push and pull” factor operating in the equation, which must be considered before any country can make a decision as to which policy, incentive scheme or mechanism to implement or what laws to amend to cure imperfections that cause inequality and poverty, where they exist. Sometimes to do “nothing” might be the answer, where there are no real imperfections in the market and to not regulate remittances, in those circumstances, might be best. Madeira is a prime example of a Portuguese island that is now socio-economically stable and can be said to have “outgrown reliance on international remittance-based development”. Intra-country remittance might in their case, be a better focus now.

The principles of accountability, transparency, financial democracy, inclusivity, participation and respect for property (earnings) and human rights are applicable in the process and approaches by Government in their policy reform initiatives to incentivize remittance flow and mobilize the Diaspora for development. The projects that are funded through remittances are generally developed to respond to the genuine needs of the recipient communities, who are also involved in process of setting the project objectives and output agenda. Migrant associations that governments support are also warned to ensure that project in which they invest in their home country, must be locally owned. Policies such as compulsory transfers or forced remittances, which have the effect of impinging on the international wage protection principles and the right of migrants to dispose of earnings freely, pursuant to *ILO Convention No. 95 (1949)*, if at all implemented, are to be kept at a minimum, and as far as practicable, should be with the consent of aggrieved parties.

These approaches and principles are in line with upholding the rule of law and the development theory that, observance of such principles is conducive to sustainable cross-sectoral development. Governments and Regulators must strike a balance in their policy initiatives, (between minimizing the risk of occurrence of financial terrorism and criminal acts through remittance transfers, and ensuring freer flow of the remittance), through neither stifling remittance flow nor raising the cost of the said transfer.⁹⁴ All identified actors within the global development architecture have a role to play in the fight against imperfections of poverty and socio-economic inequalities.

⁹⁴ Bimal Ghosh, *Migrants' Remittances and Development: Myths, Rhetoric and Realities* (2006) International Organization for Migration and The Hague Process on Refugees and Migration, p. 93.

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