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**Migrant remittances
and development cooperation**

Jørgen Carling

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Abbreviations

ATM	Automatic teller machine
BOP	Balance of payments
DFID	Department for International Development (United Kingdom)
FATF	Financial Action Task Force on Money Laundering
GDP	Gross Domestic Product
HTA	Hometown association
IMF	International Monetary Fund
IOM	International Organization for Migration
IVTS	Informal Value Transfer System
MDG	Millennium Development Goal
MFA	Ministry of Foreign Affairs
MFI	Microfinance Institution
MIDA	Migration for Development in Africa (IOM programme)
MTO	Money Transfer Operator
NGO	Non-Governmental Organization
NBFI	Non-Bank Financial Institution
NOK	Norwegian Kroner (Currency)
ODA	Official Development Assistance
POS	Point of Sales
PRSP	Poverty Reduction Strategy Paper
SME	Small and Medium Enterprise(s)
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
USD	United States Dollars
WHO	World Health Organization

Preface

This report has been funded by the Norwegian Agency for Development Cooperation (Norad) and produced as a project at the International Peace Research Institute, Oslo (PRIO). The views expressed are those of the author. Norad bears no responsibility for the opinions, documentation or conclusions in the report.

Throughout the report, 'Norway's partner countries' is used as shorthand for 'Norway's partner countries in development cooperation'. There is a glossary of relevant terms at the end of the report (pages 78–80).

Migrant remittances and development cooperation is a theme that could easily fill an array of reports the size of this one. I have concentrated on what can be thought of as the 'middle level' in a policy formulation process. The highest, most general level of migration and development linkages has been presented quite briefly, and the lowest level of technical details of specific policy measures or interventions in specific countries will have to be examined more closely before implementation. Between these two extremes, this report aims to present the basis for making sound decisions on whether, how, and where to proceed with initiatives in the field of remittances.

The research undertaken in writing this report has also contributed to the working paper *Policy options for increasing the benefits of remittances* (Carling 2004c) published at the University of Oxford, the article *Innvandrere prioriterer å sende penger til familien* (Carling 2004b) published by Statistics Norway, and substantial coverage in Norwegian media.

I would like to thank the following people for their assistance with obtaining information and disseminating findings from the project: Azizullah Khattak (State Bank of Pakistan), Dag Ellingsen (Statistics Norway), Dilip Ratha (World Bank), Frøy Gudbrandsen (University of Bergen), Hulda Tronstad Nydal (Norwegian Directorate of Immigration), Jeff Crisp (Global Commission for International Migration), Lars Østby (Statistics Norway), Naima Mouhle (PRIO), Nanneke Nix (Stichting Oikos), Beth Alarilla (Bangko Sentral ng Pilipinas), Odvar Leine (PRIO), Steven Vertovec (COMPAS, University of Oxford), Synneva Aga (Norwegian National Insurance Administration), Torgeir Lorentzen (Dagbladet), and Trygve Nordby (Norwegian Directorate of Immigration).

Executive summary

Migrant remittances are transfers of value by emigrants or their descendants to their country of origin. Registered remittances to developing countries are will be close to 100 billion USD in 2004, or roughly one and a half times official development assistance. In addition, a large, unknown amount is transferred through informal channels or to countries that do not report statistics on remittances.

The effects of remittances on development are often complex and contradictory, but seen in a positive light by the majority of analysts. In a handful of developing countries, remittances from emigrants account for more than 10 per cent of GDP. Remittances are of high importance to the national economy of eleven of Norad's 25 partner countries, and of considerable importance in another eight countries.

Remittances are transferred through a variety of channels that differ with respect to cost, speed, convenience and other factors. From a policy perspective, it is desirable to reduce transfers costs, discourage the use of informal channels, and promote transfers that enter financial institutions in the receiving country. The latter has come to be seen as a principal strategy for increasing the benefits of remittances. Rather than relying on entrepreneurship by migrants or their relatives, it is possible to encourage saving in financial institutions, thereby increasing access to credit for entrepreneurs who may or may not be migrants themselves.

Other strategies for increasing the development effects of remittances include financial incentive schemes to increase the volume of remittances, matching the development investments of migrant associations with government funds, and improving the investment climate for small and medium enterprises. In many cases it is possible and desirable to implement policies that do not involve positive discrimination of migrants or their families.

Several of Norway's partner countries are represented with sizeable immigrant populations in Norway. Other European countries increasingly see policies on immigration and integration on the one hand, and development cooperation on the other hand as linked. This could also be fruitful in Norway.

I Migration and development

Development processes affect and are affected by migration flows. The relationship between migration and development has been described as ‘unresolved’ and ‘unsettled’ in earlier research.¹ These labels point to the complexity of the dynamics involved, but should not be understood to mean that there is a systematic link waiting to be discovered. New research is contributing to our understanding of specific mechanisms and policy options, but the migration-development nexus will remain complex. This chapter summarizes some of the most important findings from existing research. For more in-depth discussions of how migration and development are intertwined, consult the suggested readings listed in Box 1.

Internal migration, such as population movements from rural to urban areas, is an important aspect of development that is not discussed in this report. It is worth noting, however, that for rural areas in large developing countries, remittances can play similar roles regardless of whether they are sent from abroad or from a faraway city in the same country.

1.1.1 Migration and economic development

Levels of emigration tend to be relatively low in very poor countries, as well as in the poorest sectors of society in developing countries—with the exception of refugee movements, which will be discussed below. Large-scale net emigration is also uncommon in high-income countries.² The countries most deeply affected by emigration as a long-term structural feature of society are primarily middle-income countries, such as the Dominican Republic, Morocco, and the Philippines. Emigration is also significant in parts of large low-income countries in Asia, such as Pakistan and Bangladesh. Most small island states are also affected by emigration, and in several cases, their emigrant population exceeds the home population.³ Governments of countries with substantial diasporas increasingly pursue actively inclusive policies towards their emigrants.⁴

¹ Appleyard 1992, Papademetriou 1991

² There is often migration in both directions between high-income countries, and depending on business cycles and other factors, a given country can experience substantial emigration for a limited period of time.

³ Connell and King 1999

⁴ Basch, Glick Schiller and Szanton Blanc 1994, Østergaard-Nielsen 2003a

Box 1: Further reading on migration and development

The following publications provide overviews of links between migration and development:

- Appleyard, R. (1992:644) 'International migration and development: An unresolved relationship', *International Migration*, 30(3/4):251-266.
- Guilмото, C.Z. and Sandron, F. (2003) *Migration et développement*. Les études de la documentation Française. Paris: La documentation Française.
- Hammar, T., Brochmann, G., Tamas, K. and Faist, T., eds, (1997) *International Migration, immobility and development. Multidisciplinary perspectives*. Oxford: Berg.
- International Organization for Migration (2001) *The link between migration and development in the least developed countries. IOM's vision and programmatic approach*. Geneva: International Organization for Migration.
- Skeldon, R. (1997) *Migration and development. A global perspective*. Harlow: Longman.
- Sørensen, N.N., Van Hear, N. and Engberg-Pedersen, P. (2002) *The Migration-Development Nexus: Evidence and Policy Options*. IOM Migration Research Series, 8. Geneva: International Organization for Migration.

When a poor country experiences economic development and growing affluence, emigration tends to *increase*. This is partly because of increased awareness of and contact with the outside world, and partly because of increased opportunities for realizing migration aspirations. When wealthier countries experience growth, emigration tends to *decline*. This happened in Southern Europe between the 1970s and 1990s, when Portugal, Spain, and Italy went from being countries of emigration to countries of immigration.⁵ An important policy implication of these patterns is that using development cooperation to promote economic development and poverty alleviation in order to reduce emigration is likely to fail as a short- and medium-term strategy. Nevertheless, migration aspirations can be reduced in some cases through targeted forms of cooperation in areas such as higher education and human rights.

1.1.2 Migration and inequality

Rather than attempting to make generalizations about the effects of emigration on development, it is useful to examine how the positive and negative effects are socially and geographically distributed, and whether this distribution has implications for policy.⁶ It is often the case that access to migration opportunities is limited for the poorest segments of society, either due to the need for capital to finance migration, or through requirements for education or social capital. Migrants who wish to seek asylum or to work illegally in high-income countries increasingly depend of professional people smugglers in order to reach Europe or North America.⁷ The cost of being smuggled can go into the tens of thousands of US dollars, depending on the origin, destination, and terms of transportation. Many migrants who do not flee political persecution

⁵ King, Fielding and Black 1997.

⁶ Carling 1996

⁷ Koser 2001, Morrison 1998

or violence have first come to Europe or North America on a tourist visa and later managed to obtain a residence. The need for expensive human smuggling services does not cause discrimination in this case, but the issuance of tourist visas is increasingly subject to explicit discrimination on the basis of social class, based on the argument that those who have little to return to, are unlikely to return when the visa expires.⁸

When opportunities for emigration are minimal for the poorest group, this can exacerbate inequalities between families at the local level. However, the benefits from emigration are often of greatest significance in the less affluent regions of a country, and the disparities between urban and rural average standards of living may be reduced.⁹

1.1.3 Migration and human capital

A major concern in debates about migration and development has been the loss of human capital for the countries that need it the most, the so-called ‘brain drain’. For an educated individual in a developing country, the returns to his or her investment in education are often much higher in Europe or North America than in their country of origin. From the state’s perspective, emigration of skilled individuals not only represents a loss in its own right, but also means that the returns to the government investment in education are lost to another country.

A recent study of 24 large labour-exporting countries in different parts of the developing world concluded that the vast majority of legal immigrants to OECD countries have secondary (high school) education or higher.¹⁰ In two thirds of the countries studied, however, less than ten per cent of the best educated (tertiary-educated) population has emigrated. The remaining third have experienced the loss of a large share of the best educated. This includes most of the Latin American countries surveyed.

Policies to stem the brain drain have included restrictive measures such as passport restrictions and mandatory public service after graduation.¹¹ More recently, policies have focused on incentives and on the facilitation of movement in both directions. The aim of simply stopping the ‘brain drain’ is partly being replaced by the aim of converting it into ‘brain circulation’ and benefit from the expertise of emigrated nationals with or without their permanent return (see also Box 12, page 56).¹²

⁸ Carling 2001, 2002a

⁹ Jones 1998

¹⁰ Adams 2003

¹¹ Danso 1995.

¹² Cervantes and Guellec 2002, United Nations 2000a, World Bank 1995

1.1.4 Migration and armed conflict

The number of refugees worldwide—approximately 12 million—is minute in relation to the estimated total of 175 million people who live outside their country of birth. However, armed conflict is a particularly important trigger of international population movements in poor countries. For instance, many of the large population movements in Sub-Saharan Africa in recent decades have been caused by warfare. This raises concerns about how receiving countries can manage the burden of a large refugee influx, and how the refugees can be reintegrated into their countries of origin when this is possible. However, it is also the case—somewhat paradoxically—that warfare has promoted the creation of diasporas that are of great significance in post-conflict reconstruction. Eritrea and Somalia are cases in point. (Remittances from refugees are discussed in section 4.1.5)

1.1.5 Migration and return

Along with remittances, the nature of return migration has been seen as a key link between migration and development.¹³ When guest worker migrants to Europe returned to their countries of origin in the Mediterranean region in the 1970s and 1980s, there was considerable disenchantment over their limited contributions to local development.¹⁴ More recently, several case studies from different parts of the world has shown that emigrants can be important resources in the development process when they return with capital and skills and find conditions that are conducive to entrepreneurship.¹⁵ As with the impact of remittances, it is worth asking not only if return migration has positive, neutral or negative effects, but how sound policies can maximize their potential contribution.

Return is sometimes an important element in the culture of emigration.¹⁶ It is evident that many emigrants leave their country of origin with the intention to return, but often end up settling abroad on a permanent basis. Still, the *expectation* of return among migrants and their families are often central to the dynamics of transnational connections. For instance, sending remittances can be interpreted as an investment in the conditions of reintegration in the case of return.

Countries of emigration sometimes experience the forced return of emigrants, resulting from warfare, political protest, or the deportation of individuals.¹⁷ This can be traumatic for the people affected, harmful to the national economy, and challenging to the local communities faced with an influx of in-

¹³ Ghosh 1992, King 2000, Papademetriou and Martin 1991, Thomas-Hope 1985.

¹⁴ Gitmez 1991, Kagermeier and Popp 1995

¹⁵ Ammassari 2003, Ammassari and Black 2001, Black, King and Tiemoko 2003, Black and Tiemoko 2003, Chevannes and Ricketts 1997, Kagermeier and Popp 1995

¹⁶ Åkesson 2004, Brettell 1979, Carling 2004a.

¹⁷ Carling 2004a, Connell 1992, Findley 1994, Van Hear 1998.

voluntary returnees. The possibility of such forced returns points to the vulnerability that accompanies the possible development benefits of emigration.

1.1.6 Migration and transnational practices

During the past decade, there has been growing interest in the sustained connections between emigrants and their countries of origin. The variety of such social, economic and political actions, flows and exchanges are known collectively as transnational practices. Sending and receiving remittances is an important transnational practice. A transnational perspective challenges the rigid notion of emigration and return and instead focuses on the processes that take place within the transnational social field that is shared by migrants and non-migrants. These theoretical developments within migration research have implications for understandings of migration and development, and for developing sound policies that maximize the development potentials of migration.¹⁸

Box 2: Migration and the Millennium Development Goals

The Millennium Development Goals (MDGs) were adopted by the United Nations General Assembly in September 2000 and have been commonly accepted as a framework for measuring development progress. There are eight goals, each of which is linked to specific indicators in order to measure progress.

- 1 Eradicate extreme poverty and hunger
- 2 Achieve universal primary education
- 3 Promote gender equality and empower women
- 4 Reduce child mortality
- 5 Improve maternal health
- 6 Combat HIV/AIDS, malaria, and other diseases
- 7 Ensure environmental sustainability
- 8 Develop a global partnership for development

International migration can have massive economic gains that can be used for poverty reduction, including progress towards the MDGs. However, the contentious nature of migration precluded any mention of migration in the MDGs. This is symptomatic of a lack of coherence between migration and development policies at the international level, with governments extremely reluctant to cede control over migration policy. Goal 8 should be a reminder to industrialized countries that global developmental responsibilities need to be taken account of in the design of national policies relating to migration.

The International Organization for Migration (IOM) has sought to enhance the contribution of migration to development in Africa through the MIDA programme (See Box 12). The programme can contribute directly to several of the MDGs by fighting poverty and hunger through dedicated remittance programmes (Goal 1); supporting an active participation of women in a gender-balanced economic and social environment (Goal 3); targeting migrant populations for prevention measures and health agents for positive change (Goal 6); and establishing partnerships with private/public sector (Goal 8).

In addition to institutional efforts, millions of migrants worldwide contribute to several of the MDGs through their remittances. It is worth noting that this occurs not least when remittances are spent on the immediate needs of poor families—the kind of expenditure that researchers and policy makers often have labelled ‘unproductive squandering’ of remittances.

Sources: House of Commons (2004a), International Organization for Migration (2004), and United Nations (2000b).

¹⁸ Carling 2004c, Sørensen 1995, Vertovec 2004

2 The dynamics of remittance flows

This chapter will first discuss available data on remittances and their handling in international balance of payments statistics. This will be followed by a presentation of major features of the remittance flows that these statistics reveal. The subsequent two sections address the variety of remittance types, and a basic model of remittance flows that can be used as a frame of reference to explain their fluctuations. Finally, the social dynamics of remittances flows are discussed.

2.1 Remittance data

Data on remittances originate primarily from two sources: information collected by central banks and published as part of the balance of payments statistics, and information from sample surveys among remittance senders and receivers. Surveys can be used to understand how patterns of remittance transfer and expenditure are associated with other characteristics and behaviour of remittance senders and receivers. They can also reveal information about that part of remittances which are not transferred through formal channels. However, surveys on remittances are few and far between in relation to the volume and complexity of global remittance flows, and their value is often reduced by methodological problems.¹⁹ The information from such surveys can be useful for examining the social and micro-economic dynamics of remittances and to assess the importance of unrecorded transfers in total flows. For international comparisons and trends over time, balance of payments statistics are the best source.

There are three different items in the balance of payments that relate to migrants' transfer of value across international boundaries: 1) *compensation of employees*, which are wages, salaries and other benefits paid to non-resident workers; 2) *workers' remittances*, which are transfers made by migrants who are considered residents in the country where they are employed; and 3) *migrants' transfers*, which are assets or liabilities that migrants take with them when they move from one country to another. Table 1 presents an overview of the three categories, and further details are given in the glossary (page 78).

¹⁹ Bilsborrow, Hugo, Oberai and Zlotnik 1997.

Table 1. Migration-related components in balance of payments statistics.

	Location in balance of payments statistics	Context of transfers		Number of partner countries reporting ¹
		Stage of migration	Duration of migration	
Compensation of employees	<i>Current account, Current transfers</i>	<i>During employment abroad</i>	<i>Less than one year (not considered residence)</i>	10
Workers' remittances	<i>Current account, Income</i>	<i>During employment abroad</i>	<i>One year or more (considered residence)</i>	13
Migrants' transfers	<i>Capital account</i>	<i>Upon migration between countries</i>	<i>One year or more (considered residence)</i>	2

¹ The number of Norads 25 partner countries (as of 2004) that reported the statistics in question to the IMF at least once during the five-year period 1998-2002 (International Monetary Fund 2003).

The three categories are often added together to give a figure of total remittances.²⁰ One reason for this is that countries differ as to how transfers are categorized in practice. Also, it is of limited importance for assessment of the impact of remittances in the recipient country whether the remittance-sending migrant is a long-term resident abroad or not. When the three categories in the balance of payments are not added together, remittances usually refers to 'workers' remittances'. This is the category that is most frequently reported, and the one that is of greatest importance to most remittance-receiving countries.²¹

Each of the three flows can have counter-flows in the opposite direction. Some of the world's largest recipients of remittances are also destinations for migrants from neighbouring countries and therefore experience a small outflow of remittances as well as the large inflow. However, remittances data are usually presented as inflows and not as net inflows (i.e. inflow minus outflow) since the volume of the outward remittances has no impact on the importance of inward remittances in the economy.

Sri Lanka is among the few developing countries that report the size of both credit and debit flows for all three migration-related balance of payments categories. Table 2 presents the respective flows, of which inward workers' remittances dominate. In discussing the impact of remittances in the Sri Lankan economy, it is the total of the inward flows, 1.3 billion dollars, that is the most relevant figure.

²⁰ Note that this results in a difference between the broad term 'remittances' and the more technical term 'workers' remittances' which describes one component of overall remittances. However, this has nothing to do, with the legal or labour-market status of remittance-sending migrants.

²¹ Exceptions include the Philippines, which receive large amounts of 'compensation of employees' from contract workers and seafarers, and the Occupied Palestinian Territory, which is financially dependent on income from workers employed in Israel.

Table 2. Remittance flows in and out of Sri Lanka, 2002, USD millions.

	Credit (in)	Debit (out)	Net
Compensation of employees	9	-14	-5
Workers' remittances	1287	-190	1097
Migrants' transfers	13	-6	7
<i>Total</i>	<i>1309</i>	<i>-210</i>	<i>1100</i>

Source: International Monetary Fund (2003).

Table 3. Availability of data on workers' remittances 1992-2001.

	Number of countries	<i>Years with remittance data 1992-2001 (%)¹</i>			
		0	1-9	10	Total
<i>All economies, by income group</i>					
Low	66	44	27	29	100
Lower Middle	52	31	29	40	100
Upper Middle	38	42	45	13	100
High	52	67	15	17	100
Total	208	46	28	26	100
<i>Economies with more than 1 million inhabitants, by income group</i>					
Low	60	42	28	30	100
Lower Middle	38	26	21	53	100
Upper Middle	26	31	58	12	100
High	28	50	18	32	100
Total	152	38	30	33	100
<i>Low- and middle-income economies, by region</i>					
Europe/Formal Soviet Union	28	29	64	7	100
Middle East and North Africa	15	33	20	47	100
Sub-Saharan Africa	48	42	31	27	100
Asia	20	45	10	45	100
Oceania	11	64	36	0	100
Central America/Caribbean	22	41	18	41	100
South America	12	25	33	42	100
Total	156	39	32	29	100
<i>Low- and middle-income economies with more than 1 million inhabitants, by region</i>					
Europe/Formal Soviet Union	26	27	69	4	100
Middle East and North Africa	15	33	20	47	100
Sub-Saharan Africa	42	45	29	26	100
Asia	17	35	12	53	100
Oceania	1	100	0	0	100
Central America/Caribbean	13	23	15	62	100
South America	10	20	30	50	100
Total	124	35	32	33	100
Norway's partner countries ²	25	52	16	32	100

Source: World Bank (2003b)

¹ Refers to data on inward workers' remittances from national balance of payments statistics.² Partner countries as of 2004.

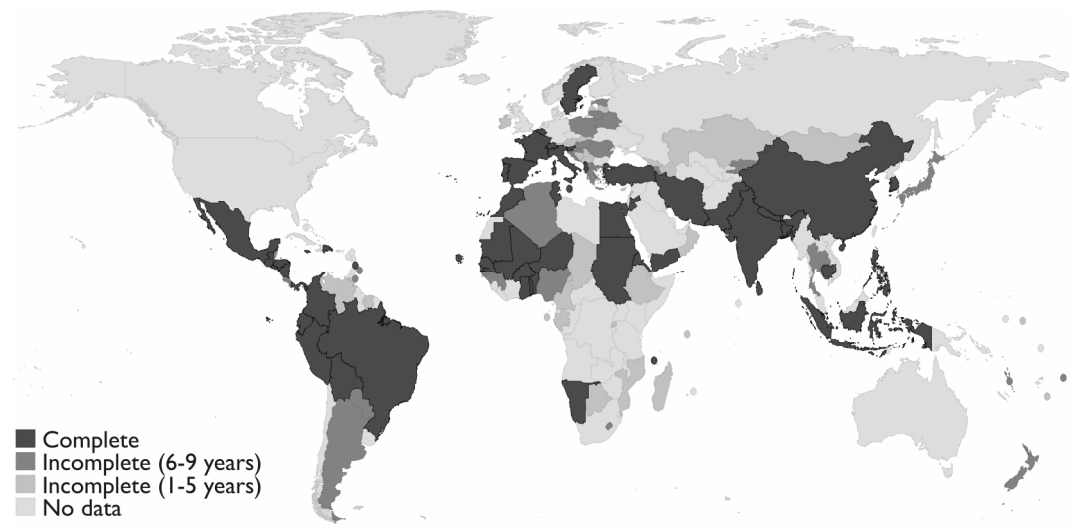


Figure 1. Availability of data on workers' remittances 1992-2001

Source: World Bank (2003b). Refers to data on inward workers' remittances from national balance of payments statistics.

Remittance statistics for entire regions or income-level country groups are affected by the fact that many countries have incomplete statistics. Table 3 and Figure 1 present the availability of data on workers' remittances during the ten-year period 1992-2001. Out of all the 208 economies surveyed by the World Bank, almost half reported no data on inward workers' remittances during this period, and only a quarter reported data each year. The picture is somewhat better for the 152 economies with more than a million inhabitants, but still only a third have complete statistics. Among the 42 low and middle income countries in Sub-Saharan Africa with more than a million inhabitants, nearly half reported no remittances statistics during this ten-year period. As shown in Figure 1, the availability of data is better in West Africa than in Central and Southern Africa.

2.2 Global remittances flows

Registered global remittances to developing countries rose from USD 88 billion in 2002 to an estimated 93 billion in 2003.²² Developing countries in total receive one-and-a-half times more money as registered remittances than they do as official development assistance.

By far the largest flow of registered remittances in the world is the one from the United States to Mexico (Table 4). Other large flows go from Saudi Arabia to Asian and Arab countries and from the United States to the countries of origin of large immigrant communities (China, the Philippines, India and Vietnam). The countries with the largest remittances inflows are Mexico, India, Spain, Pakistan, and Portugal (Table 5). In addition to Pakistan, Bangladesh, China, Guatemala, Nigeria, Sri Lanka and Indonesia are partner countries that figure on the top-25 list.

²² World Bank 2004b.

Table 4. The world's largest estimated remittance flows, 2000. USD billions.

USA → Mexico	7.6	USA → Philippines	1.2
Saudi Arabia → India.....	3.6	Japan → Korea.....	1.0
Malaysia → Indonesia.....	3.1	USA → India.....	1.0
Saudi Arabia → Pakistan.....	1.8	Saudi Arabia → Indonesia.....	1.0
Saudi Arabia → Philippines	1.6	USA → Vietnam	0.8
Saudi Arabia → Egypt	1.4	Saudi Arabia → Bangladesh.....	0.7
USA → China	1.4	USA → Korea.....	0.7
Germany → Turkey.....	1.2	France → Portugal.....	0.7

Source: Harrison (2004). The figures are estimates calculated on the basis of statistics from different sources.

Table 5. Top-25 remittance-receiving countries by three definitions, 2002.

Remittances (USD millions)		Remittances per inhabitant (USD)		Remittances as a proportion of GDP (%)	
Mexico	9814	Jamaica	432	Jordan	20.5
India	8317	Barbados	372	Samoa	17.1
Spain	3958	Jordan	371	Jamaica	14.4
Pakistan	3554	Portugal	317	Cape Verde	13.6
Portugal	3224	El Salvador	302	El Salvador	13.5
Egypt	2893	Samoa	227	Albania	13.3
Morocco	2877	Dominican Republic	225	Yemen	13.0
Bangladesh	2848	Albania	204	Honduras	10.7
Colombia	2351	Cape Verde	175	Nicaragua	9.4
Dominican Republic	1939	Croatia	149	Bosnia-Herzegovina	9.3
Turkey	1936	Guatemala	132	Dominican Republic	9.1
El Salvador	1935	Bosnia-Herzegovina	126	Morocco	8.0
Jordan	1921	Ecuador	112	Sri Lanka	7.8
Brazil	1711	Greece	111	Guyana	7.1
China	1679	Tunisia	109	Guatemala	6.8
Guatemala	1579	Honduras	104	Tajikistan	6.5
Ecuador	1432	Mexico	97	Sudan	6.3
Nigeria	1301	Morocco	97	Uganda	6.3
Yemen	1294	Spain	97	Pakistan	6.0
Sri Lanka	1287	Nicaragua	71	Bangladesh	6.0
Indonesia	1259	Yemen	70	Ecuador	5.9
Greece	1181	Sri Lanka	68	Tunisia	5.1
Jamaica	1130	Guyana	67	Mongolia	5.0
Poland	1109	Belize	55	Togo	4.1
Tunisia	1071	New Zealand	54	Nigeria	3.7

Bold font indicates Norway's partner countries. The figures refer to workers remittances (see glossary for definition). Amounts are for latest available year when data for 2002 is not available. Source: International Monetary Fund (2003).

When countries are ranked by remittance flows in relation to the size of the economy, large countries such as Mexico and India give way to smaller countries (Table 5 and Figure 3). Many of the economies where remittances are most important are small, middle-income countries such as Jamaica, Jordan, El Salvador and Cape Verde. In addition, several countries recovering from conflict which are not covered by these statistics are known to depend heavily on remittances from abroad. Examples include Somalia and Afghanistan.

Remittances are often thought of in terms of transfers from rich to poor countries. While such flows are the most important, it is worth noting that large remittance flows also originate in low- and middle-income countries. For instance, it is estimated that the world's third largest flow of remittances goes from Malaysia to Indonesia (Table 4). In Africa, Côte d'Ivoire and Angola are important sources of remittances, in addition to South Africa. Developed countries with a history of emigration, such as Spain, Portugal and Greece are important remittance-receiving countries in absolute numbers and in terms of per capita amounts (Table 5).

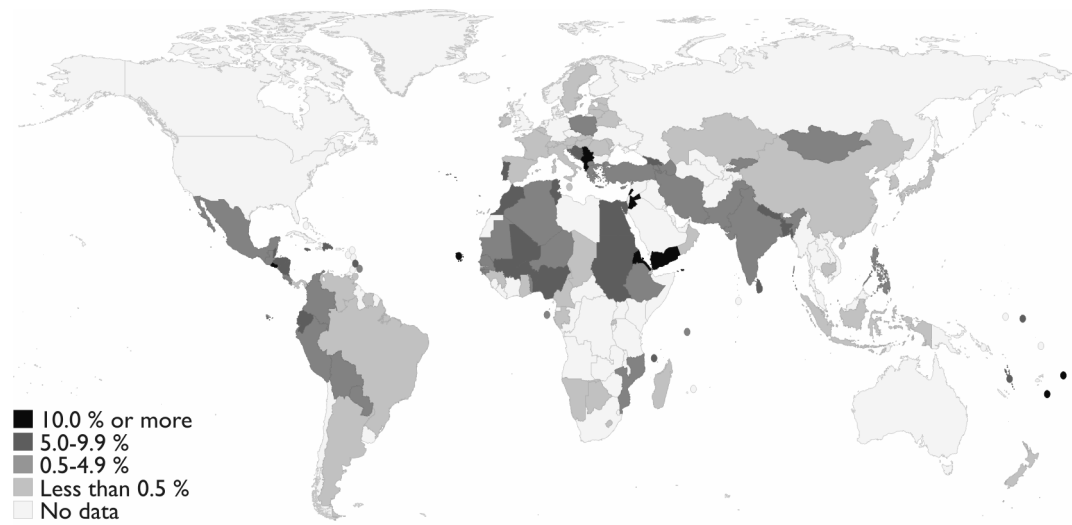


Figure 2. Remittances as a proportion of GDP, 1992-2001.

Note: Refers to workers' remittances in the balance of payments. Proportions are unweighted averages for the 10-year period. Source: World Bank (2003b).

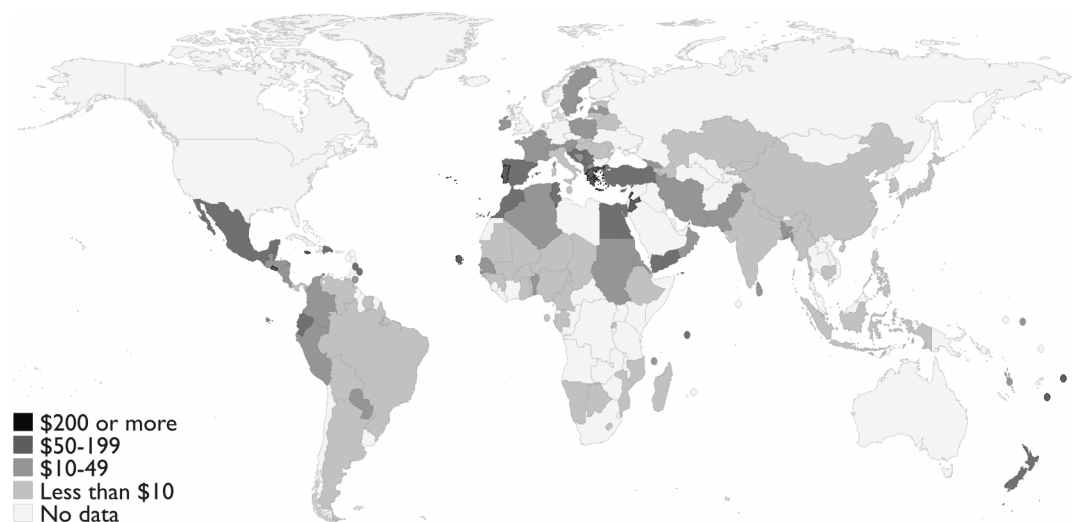


Figure 3. Remittances per capita, US dollars, 1992-2001.

Note: Refers to workers' remittances in the balance of payments. Amounts are unweighted averages of current US dollars for the 10-year period. Source: World Bank (2003b).

Table 6. Estimated flows of remittances by region, 2000. USD billions.

Sending region	Receiving region						Total
	Africa	Asia	Europe	Latin America, Caribb.	North America	Oceania	
Africa	3.7	0.5	0.1	0.0	0.0	0.0	4.2
Asia	3.4	31.5	3.4	0.5	0.2	0.0	39.0
Europe	2.6	3.2	9.5	0.4	0.4	0.1	16.2
Latin America and Caribbean	0.0	0.1	0.6	1.1	0.1	0.0	1.8
North America	0.7	7.9	5.7	14.2	0.9	0.1	29.6
Oceania	0.0	0.2	0.4	0.0	0.0	0.1	0.8
Total	10.4	43.4	19.6	16.2	1.6	0.3	91.5

Bold figures indicate flows between countries in the same region.

Source: Harrison (2004). The figures are estimates calculated on the basis of statistics from different sources.

About one third of global remittances are estimated to flow between Asian countries (Table 6). There are also substantial remittances flows within Europe. The largest inter-continental flows run from North America to Latin America and the Caribbean, and from North America to Asia. Table 6 also shows that African countries receive more remittances from elsewhere in Africa than they do from other continents. The intra-African flows occur primarily in Sub-Saharan Africa. The inflows from Europe and Asia, on the other hand, are concentrated to North Africa.

2.3 The diversity of remittances types

While the word ‘remittances’ is usually associated with migrant workers’ transfer of a proportion of their income to their family in the country of origin, this is only one of many transfer types that can be called remittances. One way of distinguishing between transfer types, is to differentiate between the types of senders and recipients. Table 7 presents seven types of remittances classified in this way.

Table 7. Remittance types classified by senders and recipients.

Sender	Recipient			
	Migrant	Non-migrant(s)	Collective	Government
Migrant	Personal deposits or investments ¹	Intra-family transfers ¹	Charitable donations	Taxes or levies
Collective			HTA development projects	
Government	Social security transfers ²			
Private business	Company pensions ²			

¹ These transfers may be either monetary or in kind, and a large proportion of the monetary transfers are often unofficial.

² These types of flows are subsequently combined as ‘pensions and social security transfers’.

Personal deposits or investments — Migrants' transfers of money for their own use, either depositing in bank accounts in the country of origin, or transferring savings accumulated abroad. This is the type of remittances most often used for productive investment. Spending decisions are made by the migrant herself or himself.

Intra-family transfers — Migrants' transfers to family members in the country of origin, either on a regular (usually monthly) basis or for special circumstances such as religious festivals, or in times of particular hardship. This flow is what is usually thought of as remittances, and probably the most important flow in monetary terms. Spending decisions are made by the recipients, but often conditioned by the migrants' influence.

Charitable donations — Migrants' donations to charitable purposes, both crisis relief and long-term development. These are either made on an independent basis, or through the opportunity offered by some money transfer companies to divert a proportion of transfers to a charitable purpose.

Collective investments in development — Transfers made by migrant organizations, especially hometown associations (HTA) for investments in community development. This is especially important in remittance flows from the United States to Latin America (see section 6.5.1).

Taxes or levies — Mandatory remittances to the government, either as a specified proportion of voluntary remittance transfers, or in the form of a tax collected from emigrants. The best example of such a tax is post-independence Eritrea, which has successfully collected taxes from the country's large diaspora (see section 6.2.1).

Pensions and social security transfers — Regular transfers from former employers, pension funds or governments in countries of employment. Such transfers are significant in the case of emigration to welfare states where migrants obtain the right to pensions which they can receive in their countries of origin after retiring there. In some cases social security benefits other than old age pensions are also important. Pensions and other social security transfers are not discussed in detail in this report. However, their importance and potential are worth noting. When emigrant populations mature and intra-family remittances decline, an increase in social security transfers can abate the loss of income (see section 2.5.5). Figure 4 and Figure 5 show how remittances and social security transfers have developed in the case of two maturing emigrant communities: Cape Verdeans in the Netherlands and Pakistanis in Norway. Both groups number about 20,000 people and have their origins in labour migration in the 1960s and 1970s.²³ Compared to the remittances flows, social security transfers are very stable, and they grow at an increasing rate. In a long-term perspective, their share in total flows has increased markedly.

²³ Carling 1999, 2003, 2004a

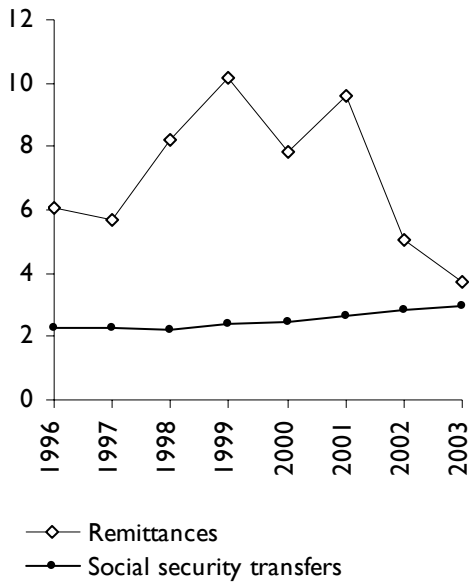


Figure 4. Registered migrant remittances and social security transfers from the Netherlands to Cape Verde 1996-2003. Million Euro.

Source: Unpublished statistics from Banco de Cape Verde and Sociale Verzekeringsbank.

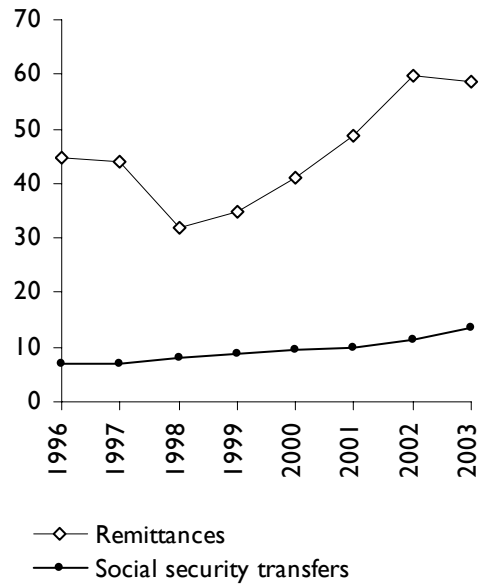


Figure 5. Registered migrant remittances and social security transfers from Norway to Pakistan 1996-2003. Million NOK.

Source: Unpublished statistics from State Bank of Pakistan and the Norwegian National Insurance Administration (Trygdeetaten).

2.4 A basic model of remittance flows

One approach to explaining the size of a remittance flow from a given emigrant population is illustrated in Figure 6. The *available pool of resources* from which remittances can be drawn depends on the number of emigrants, and their salary levels and costs of living. The migrants' *propensity to remit* from the available resources then determine the volume of remittances sent. Characteristics of the migrants themselves and of the countries of origin and employment affect the salary levels and living costs as illustrated in the figure.

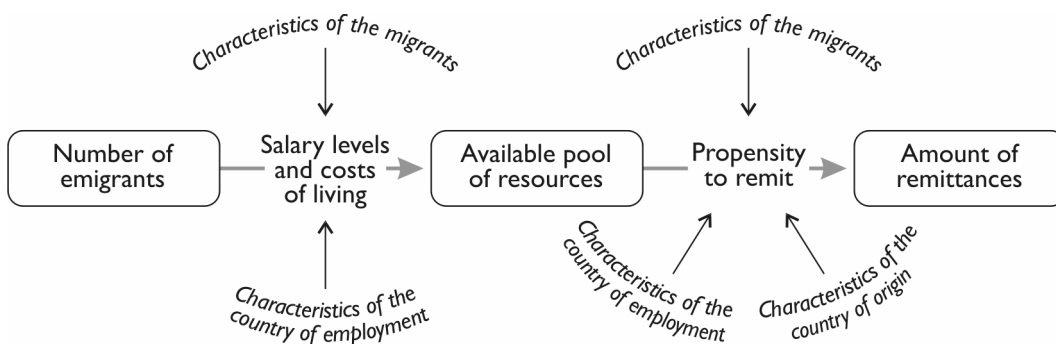


Figure 6. A basic model of remittance flows.

The model is useful for understanding how remittances vary over time. For instance, remittances to Yemen stagnated in the late 1970s after a drop in wages in Saudi-Arabia (a reduction in the pool of available resources), remittances to many South Asian countries from Kuwait fell as a result of the upheavals of the first Gulf War in 1991 (a reduction in the number of emigrants) and remittances from Norway to Pakistan fell during the 1990s as a result of a fall in the number of divided families.²⁴

Emigrants' propensity to remit is affected in complex ways by a large number of factors. For instance, situations of hardship in the country of origin can stimulate remittances, and the opposite situation of prosperity and stability can have the same effect. The assumed influence of selected variables on migrants' propensity to remit is summarized in Table 8.

From a policy perspective, it is interesting to ask which of the variables in Table 8 are susceptible to policy interventions that aim to increase remittance inflows. Promoting the short-term emigration of unaccompanied workers could increase remittances, but conflict with other policy objectives. The most feasible targets for policy intervention are the establishment of cheap, convenient, and reliable ways of transferring remittances, and the setting up of incentive programmes for attracting remittances. In addition, some more ambitious policy aims with wider implications are also likely to increase emigrants' propensity to remit. These include removing the black market premium on exchange rates and providing stable economic and political conditions that promote investment. Finally, a sound diaspora management strategy can enhance the emigrants' feeling of belonging in the country of origin, and increase their propensity to remit.

2.5 The social dynamics of remittances

Sending and receiving remittances is not only an economic transaction, but a form of exchange between individuals that takes place in a fairly intricate social context. The remainder of this chapter address some of the principal aspects of the social dynamics of remittances.

2.5.1 Motivations for remitting

Development economists have pointed to three different types of motivation for sending remittances.²⁵ First, *altruism* implies that migrants remit money simply because they care about the well-being of the receivers. Second, migrants can remit out of *self-interest* when this makes them eligible for inheritance or other resources in the community of origin. Third, remittances can be motivated by informal contracts of *insurance* whereby family members in different locations reduce risks by sharing a portion of their income.

²⁴ Connell 1992, Fergany 1982.

²⁵ Drèze and Sen 1989, Lucas and Stark 1985, Stark 1995, Taylor 1999.

Table 8. The assumed influence of selected variables on migrants' propensity to remit.

	Variable	Propensity to remit
Characteristics of the migrant	Intention to return	<i>Propensity higher among migrants who know they are returning (contract workers) or intend to return</i>
	Years since emigration	<i>Propensity lower over time (after a possible increase during the initial period of adjustment), especially if migrants are joined by dependants or marry and settle in the country of employment</i>
	Gender	<i>Propensity lower when a higher proportion of females is associated with fewer split families. However, single female migrants are thought to remit a higher proportion of their earnings than single men</i>
	Marital status	<i>Propensity lower among unmarried migrants than among married migrants separated from their spouses. Lower if married migrants are joined by their spouses</i>
	Educational and occupational level	<i>Propensity lower among highly educated migrants and those in higher occupational levels who are more likely to take their dependants with them and are less likely to be under pressure to remit for family support</i>
	Financial situation	<i>Propensity higher among migrants who have money to spare after meeting the basic requirements for subsistence abroad</i>
Relations between the countries of origin and employment	Real wage differentials between countries of origin and employment	<i>Propensity higher where wage differentials are large</i>
	Exchange rate	<i>Propensity lower when the currency in the country of origin is overvalued</i>
	Facility, cost and speed of transferring remittances	<i>Propensity higher when there are good opportunities for remitting money in cheap, convenient, and reliable ways.</i>
Characteristics of the country of employment	Opportunities for integration and settlement	<i>Propensity higher where there are few prospects for permanent settlement and family reunification.</i>
Characteristics of the country of origin	Political and financial risk in the country of origin	<i>Propensity lower if migrants see political and economic conditions in the home country as risky or unstable</i>
	Hardship in the country of origin	<i>Propensity higher in times of hardship, for instance in the aftermath of natural disasters</i>
	Inclusion of emigrants in the politics and society of the country of origin	<i>Propensity possibly higher where emigrants are explicitly valued and given real influence in the country of origin.</i>
	Household economy in the country of origin	<i>Propensity higher if household members in the country of origin have a low total income and/or few other sources of income</i>
	Incentive programmes	<i>Propensity higher where there are well-designed government incentive programmes to attract remittances</i>

Sources: Russell (1986, 1992), Stahl (1982), and Stalker (1994).

The latter motivation has been emphasized in the so-called New Economics of Labour Migration (NELM).²⁶ This line of research argues that labour migration is a risk-reducing as much as an income-maximizing strategy, and that correcting failures in local capital and insurance markets is a more efficient strategy for reducing migration than intervening in the labour market.²⁷

While these economic theories are useful tools for thinking about remittances and policy options, there is a danger in overlooking the cultural dynamics at hand. In many societies of origin, the obligation to remit is firmly rooted in a culture of migration, and emigrants who fail to fulfil this obligation are frowned upon.²⁸ Complying with the expectation could, in economic terms, be seen as an act of self-interest. However, ethnographic studies of the complexity of relations between migrants and non-migrant relatives indicate that seeing motivations to remit as a two-dimensional continuum from altruism to self interest is overly simplistic.²⁹

2.5.2 *Remittances and family dynamics*

In many cases, remittances are best understood as intra-family obligations being sustained despite the geographical separation of the family. In countries without an adequate old age pension system, it is often taken for granted that adult children support their elderly parents. If the children emigrate they may be in a better position to provide this support, and there is not necessarily any reason why their obligation or commitment to providing it should decline.

As pointed out above, a geographically divided family in which the members support each other financially provides a form of insurance for itself. However, the distance between family members also creates conditions of asymmetric information. The remitter cannot directly observe the activities of the recipients and therefore has limited influence on how the remittances affect the behaviour and spending of the receiving household.³⁰ This can often be a source of tension or conflicts between family members.

It is common for migrants to complain that their non-migrant relatives who receive remittances don't appreciate the efforts behind the money, and spend it carelessly. Migrants can also be concerned if recipients spend remittances in ways that are invisible to neighbours and relatives, who might wrongfully conclude that no remittances are being sent. Non-migrant remittance receivers, on the other hand, can feel powerless and vulnerable if the remittance income is unpredictable.

²⁶ Massey, Arango, Hugo, Kouaouci, Pellegrino and Taylor 1998, Taylor 1999.

²⁷ Taylor, Arango, Hugo, Kouaouci, Massey and Pellegrino 1996.

²⁸ Åkesson 2004, Carling 2001.

²⁹ Åkesson 2004, Gowricharn 2004, Levitt 2001, Mahler 2001, Strijp 1997

³⁰ Azam and Gubert 2002, Chami, Fullenkamp and Jahjah 2003.

2.5.3 *Remittances and gender*

Like migration itself, the sending and receiving of remittances takes place within certain gender relations. For instance, female migrants often earn less, but possibly remit a higher proportion of their earnings than male migrants. Remittance flows can also have an impact on gender relations when female migration gives women the traditionally male role of family breadwinner.

Studies from different parts of the world show that remittances are especially important in female-headed households. In some cases, the household is headed by a woman precisely because her husband is working abroad, but this is not always the case. For instance, migrants could give priority to sending remittances to their more vulnerable relatives who have few other sources of income.

2.5.4 *Remittances and status*

For migrants who experience discrimination in their countries of employment, sending remittances can be seen as an investment in maintaining a position in a society where they are respected and valued. In some cases, migrants save throughout the year in order to spend liberally when they return to their countries of origin on holiday.

As noted above, communal investments in development projects are an important form of remittances, especially in the Americas. Hometown associations (HTAs) and migrant associations more generally sometimes constitute vehicles for individual migrants to realize positions of leadership that might otherwise not be available to them.³¹ HTA leaders who successfully manage projects and mobilize government funds not only contribute to their communities of origin, but also find their leadership reinforced. In societies with a strong element of clientelism, the opportunities organizations offer for individual careers often lead to ‘institutional multiplication’—a multitude of small organizations with many leaders and few members.³² It is important to be aware of how the quest for individual status interacts with the desire to assist the beneficiaries of communal remittances.

2.5.5 *Remittances and the evolution of emigrant communities*

Generally speaking, remittances have two rather different types of origin: workers who are employed abroad for a limited period, usually without their families (e.g. Bangladeshi workers in the Gulf and Filipina maids in Hong Kong) and established emigrant communities (e.g. Sri Lankans in Canada or Pakistanis in Norway). With short-term workers abroad, the number of people deployed, and their available resources are key determinants of remittances, while the propensity to remit is likely to be high and stable (cf Figure 6). In the

³¹ Goldring 1998, Graça 2000.

³² Batterbury 2002

case of established emigrant communities, remittance flows are more vulnerable to a decline in the propensity to remit.

It is generally believed that the remittances of individual migrants tend to decline over time. Some studies of survey data have shown a clear drop in average remittances after 5-10 years, while others have shown a rise during the first years followed by a slow decline.³³ Nevertheless, it is clear that in many cases, emigrants continue to remit money to their countries of origin after several decades. At the level of the community, however, a process of maturing usually means that first generation migrants constitute a gradually smaller share of the community, and that those who have lived in the country of origin as adults eventually become a small minority.³⁴ This can lead to a decline in remittance flows. While members of the second generation also send remittances, they tend to do so at a much lower rate than first generation migrants.³⁵

³³ Carling 2004b, Macpherson 1994.

³⁴ Carling 2004d

³⁵ Carling 2004b, Kasinitz, Waters, Mollenkopf and Anil 2002, Rumbaut 2002

3 Transfer mechanisms and transfer costs

Monetary remittances are sent through a large number of different transfer mechanisms. This section discusses and compares cash-based electronic transfers, card-based transfers, account-to-account transfers, informal value transfer systems, and personal couriers.

Remittances transferred through the first three mechanisms are usually registered in national accounts, while transfers by means of informal value transfer systems and personal couriers are generally not. The balance between registered and unregistered remittances has been a concern to policy makers. Migrants may choose to send remittances outside official channels for a variety of reasons. As shown below, informal systems often compare favourably to official mechanisms in terms of cost, accessibility and other variables. In addition, unregistered mechanisms are attractive when exchange rates are overvalued and cash remittances can be exchanged on the black market at much better rates than through formal channels.³⁶

The share of remittances transferred through unregistered mechanisms varies widely. Available information comes mainly from sample surveys among remittance senders and receivers Table 9 presents a series of estimates from such surveys, with unrecorded remittances ranging from 8 to 85 per cent of the total. Table 10 presents the estimated evolution of the proportion of remittances transferred through informal mechanisms to selected remittance-receiving countries. These estimates are based on econometric modelling that departs from the differentials between official and unofficial exchange rates.

Table 9. Proportion of unrecorded remittances in sample surveys. Selected remittance-receiving countries 1980–1993. Percent.

Bangladesh.....	20	Pakistan.....	43
South Korea.....	8	Sri Lanka.....	13
India (Kerala).....	40	Sudan.....	85
Egypt.....	33	Tonga.....	43
Philippines.....	50-55	Western Samoa.....	42

Source: Puri and Ritzema (2001), citing primary sources.

³⁶ Puri and Ritzema 2001.

Table 10. Estimated proportion of unrecorded remittances based on econometric modelling. Selected remittance-receiving countries 1985–2000. Percent.

	1985	1990	1995	2000
Bangladesh	80	80	21	20
El Salvador	80	26	21	20
Guatemala	70	25	10	10
Indonesia	20	20	21	21
Pakistan	40	41	41	50
Sri Lanka	27	29	20	20
Tanzania	70	70	11	11
Turkey	10	10	11	11

Source: El Qorchi *et al.* (2003). Proportions are modelled on the basis of the size of black market premiums on exchange rates.

It appears that the use of unrecorded transfer mechanisms has declined over the past decades. One rough estimate suggests a drop from 50-60 per cent in the late 1980s to around 20 per cent in the late 1990s.³⁷ This could have declined further in response to measures to restrict financing of terrorism after 11 September 2001.³⁸

From the perspective of remittance senders and receivers, several factors influence the choice of transfer mechanism:³⁹

Cost — The cost of transfers varies between remittance service providers and often depends on the amount remitted. The cost of sending a typical remittance amount through formal channels from industrialized to developing countries is usually 5–15 per cent, but can be lower than 2 per cent or higher than 30 per cent depending on the mechanism and location.⁴⁰

Speed and ease — The time required for remittances to be transferred varies from a couple of minutes to several weeks. There is also variation in the amount of paperwork and formalities required.

Limiting requirements — Some services are limited to senders and/or receivers with bank accounts, or with accounts in specific banks or credit unions. Furthermore, some mechanisms require identification documents while others do not. Migrants who are not legal residents in the country of employment could have a more limited choice of transfer mechanisms.

Proximity and outreach — The accessibility of remittance services is highly variable, especially at the receiving end. Many migrants have families in rural areas with limited infrastructure. In the countries of employment, services that are readily available in the migrants' neighbourhood are more attractive.

³⁷El Qorchi, Maimbo and Wilson 2003.

³⁸World Bank 2004b.

³⁹Orozco 2004, Sander and Maimbo 2003, Suro 2003a, 2003b.

⁴⁰Carling 2004b, Orozco 2002a, 2004, World Bank 2004b, Sander, Mukwana and Millinga 2001.

Table II. Comparison of remittance transfer mechanisms.

	Cash-based transfers	Card-based transfers	Smart card transfers	Account-to-account transfers	Informal value transfer systems	Hand-carried cash
Requirements and limitations						
Sender must have a bank account	—	✓	—	✓	—	—
Receiver must have a bank account	—	—	—	✓	—	—
Only available for certain countries	—	✓	✓	—	✓	✓
Service dimensions						
Cost	—	+	+	—	+	+
Proximity and outreach	+	—	—	○	○	○
Speed and ease	+	+	+	—	+	○

Service dimensions are roughly classified as follows: + = good, — = poor, and ○ = medium or variable.

Familiarity and trust — Migrants often prefer remitting through institutions that are familiar, welcoming and trustworthy. Research from different countries has found that banks are often perceived as intimidating, and they often have market strategies that deliberately discourage less wealthy clients.⁴¹

Awareness — It is often difficult to navigate the market for remittance services. While the large money transfer operators heavily advertise their services, smaller operators often rely on word of mouth. Many migrants therefore remit money through other mechanisms than they would have chosen had they had perfect information.

Niche services — Some remittance service providers attract clients through specific niche services. These include door-to-door delivery and different provisions and various arrangements for delivery of goods to the receivers.⁴²

3.1 Cash-based electronic transfers

In a cash-based electronic transfer, the remittance sender deposits cash with an agent of a money transfer operator (MTO) and the recipient collects local currency cash at a connected agent in another country. Receivers usually have to provide reference number and identify themselves and/or provide a secret keyword decided by the sender. There is either a flat fee or a charge that depends on the amount remitted. In addition, the MTO sometimes makes a profit on the exchange rates used.

Western Union is the World's largest MTO, with a market share of about 14 per cent.⁴³ MoneyGram and Thomas Cook also operate globally. Entering the

⁴¹ Genesis 2003, Sander and Maimbo 2003.

⁴² Buencamino and Gorbunov 2002, Sander and Maimbo 2003.

⁴³ First Data Corporation 2004.

formal remittance market at a regional or global level requires very large investments in a branch network in both source and recipient countries. Western Union, for instance, had 182,000 agent locations worldwide at the end of 2003.⁴⁴ About 40 per cent of these are partnerships with banks, and 35 per cent are with post offices.⁴⁵ The high fixed costs impede new entrants and allow incumbent firms to charge above the marginal transaction costs.⁴⁶ Western Union's revenue on cash transfers has grown by more than 30 per cent annually in recent years, and the profit margin has remained stable at about 30 per cent.⁴⁷ Western Union, sees 'incredible growth opportunities'⁴⁸ in developing markets such as China, India, Eastern Europe, the Former Soviet Union, Africa and the Middle East. During 2003, Western Union opened 9000 new agent locations in China and India alone.⁴⁹

In addition to the handful of globally established MTOs, there is a myriad of smaller MTOs that cater to specific ethnic and/or regional markets. These include specialized MTO companies as well as shipping companies and other businesses that also offer money transfer services.

Clients are often unaware of the full cost of the service of MTOs. A large-scale study among Latino immigrants in the United States showed that remittance senders had often been surprised that the amount of money delivered to their relatives was less than they had expected. The migrants in the study were often unaware of the total costs prior to the transaction, and did not understand why additional costs were being paid.⁵⁰ One reason why it is difficult to understand and compare prices, is that costs are split between the charge paid by the sender, exchange rate premiums, and sometimes fees at the receiving end. In particular, the vast majority of Latino immigrants in the United States are unaware that the difference between published exchange rates and the rates used in the transfer process can reduce the amount of money that reaches the recipients.⁵¹ The profits MTOs make on the exchange rate differential can be higher than 4 per cent.⁵²

3.2 Card-based transfers

The spread of automatic teller machines (ATMs) and point of sales (POS) terminals in developing countries has opened up for new remittance transfer mechanisms with very low costs. In a card-based transfer, remittance receivers use debit cards to make payments or withdraw cash deposited by the remit-

⁴⁴ First Data Corporation 2004.

⁴⁵ Bézard 2004.

⁴⁶ World Bank 2004b.

⁴⁷ Bézard 2004.

⁴⁸ First Data Corporation 2004:3.

⁴⁹ First Data Corporation 2004.

⁵⁰ Suro 2003a, Suro and Bendixen 2002.

⁵¹ Suro 2003a.

⁵² Orozco 2002b.

tance senders in a bank account. Alternatively, payments or cash withdrawals can be made with so-called smart cards, which have a stored value and are not linked to an account.

Card-based transfer mechanism has had some success in the Dominican Republic and the Philippines but remain very limited globally.⁵³ Among the reasons for this are the requirement that the sender have a bank account, the limited spread of ATMs and POS terminals outside major cities in developing countries, and the daily withdrawal limits.⁵⁴

It is estimated that ATM-based remittance transfers will grow rapidly in the coming years, from USD 0.3 billion in 2002 to a projected USD 19.5 billion in 2006. This is expected to constitute 11 per cent of the global remittance market.⁵⁵ Established cash-based transfer firms such as Western Union are diversifying their product offerings to include card-based transfer services.⁵⁶

3.3 Account-to-account transfers

It is possible to make international transfers from one bank account to another, and in some cases to accounts in credit unions or micro-finance institutions.⁵⁷ This is a reliable transfer mechanism, but often a relatively slow and expensive one. Although banks worldwide now communicate through the SWIFT messaging system, interbank transfers are still best suited for large commercial payments, for which the bank wire system was originally developed.⁵⁸ The requirement that both the sender and the receiver have a bank account is also a principal limitation for the use of account-to-account transfers.

When account-to-account transfers are tailored to the needs of remittance senders and receivers and marketed on competitive terms, this has the wider advantage of drawing previously unbanked households into the formal financial system.

3.4 Informal value transfer systems (IVTS)

Informal value transfer systems are a heterogeneous collection of mechanisms for transferring outside the conventional, regulated financial institutional systems.⁵⁹ The IVTS are characterized by trust, a relative absence of written records, and a reliance on international ethnic networks. In most cases, there is no physical movement of money involved. Informal value transfer systems are known by different names in different parts of the world. Among the most common are *hawala* and *hundi* in South Asia and *xawilad* (or *hawilad*) on the

⁵³ Bézard 2004.

⁵⁴ World Council of Credit Unions 2004.

⁵⁵ Bézard 2002.

⁵⁶ First Data Corporation 2004.

⁵⁷ The integration of remittance and microcredit services is discussed in section 6.3.3.

⁵⁸ World Council of Credit Unions 2004.

⁵⁹ Passas 1999.

Horn of Africa.⁶⁰ The word *hawala* is often used to refer collectively to the IVTS that are used by migrants around the world to send remittances to various parts of Asia and East Africa.⁶¹ In the academic and policy literature, IVTS are also known as ‘alternative remittances systems’ or ‘informal funds transfer systems’.⁶²

The use of the word ‘informal’ is partly misleading because in some countries, such as the United Kingdom, these systems have largely been formalized and subjected to state regulation.⁶³ There is considerable variation between countries—even within Europe—in the legislation governing such systems, and in the extent to which laws are enforced.⁶⁴

IVTS are generally considered to be reasonable, swift, accessible and reliable, and therefore attractive to remittance senders and receivers.⁶⁵ It appears that IVTS have become less competitive relative to other mechanisms during the past few years, and that the proportion of remittances transferred through these channels has declined. Nevertheless, they are still popular and widespread.

In the case of the Somali *xawilaad* system, the procedure for sending remittances is as follows:⁶⁶ A Somali in Europe or North America pays the transfer amount and fee in cash to a *xawilaad* broker in his city and provides details about himself and the receiver. The broker then informs a local office near the receiver (e.g. in Nairobi or Mogadishu) via fax, telephone or e-mail, and the local office contacts the recipient. He or she then comes to collect the money in person, and is required to provide details about the sender as well as proof of his/her own identity. Accounts between the different *xawilaad* offices are settled through sending cash or through trade in consumer items, gold or other commodities.

The various IVTS are often extremely complex. Within these systems, the transfer of remittances is often part of larger exchanges of money and goods between several countries.⁶⁷ In some cases they operate completely outside the formal banking system. In other cases, banks are used for depositing the cash collected from migrants, or for making large lump sum transfers to settle accounts between the different offices. In the *hawala* and *hundi* systems there is frequently a distinction between a ‘retail’ tier responsible for collecting small amounts from individuals, and a ‘wholesale’ tier of operators who transfer the

⁶⁰ The word *hawala* comes from Arabic and is often translated as ‘change’ or ‘transform’. *Hundi* means ‘bill of exchange’ or ‘promissory note’ and has its origins in the Sanskrit word meaning ‘to collect’ (Thieme 2003). *Xawil* is a Somali word derived from Arabic, meaning ‘transfer’ (Horst 2004). Other IVTSs include *fei ch’ien* in China and *padola* in the Philippines (Passas 1999).

⁶¹ El Qorchi 2002.

⁶² El Qorchi, Maimbo and Wilson 2003, Financial Action Task Force on Money Laundering 2003.

⁶³ Blackwell and Seddon 2004.

⁶⁴ Blackwell and Seddon 2004, House of Commons 2004b.

⁶⁵ Ballard 2003, Blackwell and Seddon 2004.

⁶⁶ Horst and Van Hear 2002.

⁶⁷ Blackwell and Seddon 2004, Monsutti 2004, Passas 1999.

funds internationally, either directly to the receiving or through an intermediary, usually in Dubai.

The activities of IVTS can be criminal in their own right when they do not comply with national financial regulations. Moreover, IVTS are sometimes used as part of criminal activity with an international element. Just like migrants sending remittances, criminals will consider the advantages and disadvantages of different transfer mechanisms. The anonymity, efficiency and convenience of IVTS can appeal to criminals in some cases, but it appears that conventional banks, insurance companies, non-bank financial institutions, real estate and gold traders are often preferred.⁶⁸ Nevertheless, documented cases have shown that IVTS are used for a wide variety of illegal purposes.⁶⁹

Money laundering has been seen as a particular cause of concern related to IVTS. This is the process by which criminals either hide money that comes from illegal activity or changes this wealth into what appears licit.⁷⁰ As anti-money laundering strategies have been more effectively implemented in the formal financial sector, there has been increased money laundering activity using IVTS.⁷¹

Since 11 September 2001, concerns about the use of IVTS to finance terrorism have come to the fore. Financing of terrorism had been addressed in a United Nations convention in 1999, but rose on the agenda as the UN Security Council unanimously adopted a wide-ranging resolution on the same issue two weeks after terrorist attacks of 11 September 2001.⁷² In the subsequent ‘war on terror’ the United States government has been particularly active in controlling unregulated international money transfers. In November 2001, the IVTS Al Barakaat was identified by US authorities as a major provider of funds to Al Qaeda. Al Barakaat’s offices around the world were shut down, their assets were confiscated and their telecommunications lines were cut.⁷³ Whatever the links with financing of terrorism—they remain disputed—Al Barakaat was the largest transmitter of remittances to Somalia, and its closure had dramatic consequences for thousands of Somali families. The United Nations Development Programme subsequently took action to prevent the closure of alternative networks.⁷⁴

⁶⁸ Blum 1999, Passas 1999.

⁶⁹ Passas (1999) lists eleven illegal purposes served by IVTS: 1) Evasion of currency controls; 2) Tax evasion; 3) The purchase of illegal arms, drugs, or other illegal/controlled commodities; 4) To make corrupt payments; 5) Intellectual property violations; 6) To receive ransom; 7) To make payments for the smuggling of illegal aliens; 8) To make payments for illegal trade in body parts; 9) To further the commission of financial fraud; 10) To finance illegal activities, such as terrorist attacks; 11) To launder the proceeds of criminal activities.

⁷⁰ Block 1999, Blum 1999.

⁷¹ Financial Action Task Force on Money Laundering 2003.

⁷² United Nations 1999, United Nations Security Council 2001.

⁷³ Horst and Van Hear 2002.

⁷⁴ Transnational Communities Programme 2002.

Box 3: The Barakaat and Dahabshiil trials in Norway

In October 2001, the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM) arrested seven persons of Somali origin who were associated with the two IVTS companies Barakaat and Dahabshiil. The subsequent trials received considerable international attention because they were the first in Europe to test the legality of *hawala* or similar transfers. All seven were charged with various crimes relating partly to the transfer business in itself, and partly to the possible criminal origin of funds that were transferred. The prosecuting authority was unable to demonstrate that the money originated from criminal activity, but the defendants could not prove their claim that the transfers were legitimate remittances for family support. In two separate trials in the summer of 2003, two men were convicted to prison sentences of 14 and 18 months, while the remaining five received sentences of 30 to 45 days. The sentences were appealed by the defendants and have yet to be tried by the Court of Appeal.

Dahabshiil, whose manager was sentenced to imprisonment, has requested permission to establish regulated remittances services to Somalia, but this was denied by the Financial Supervisory Authority of Norway (Kredittilsynet). This decision was appealed by Dahabshiil, but upheld by the Ministry of Finance. Dahabshiil is the oldest remittance-company in the Horn of Africa, with the largest worldwide network. Its clients include United Nations organizations such as UNDP, UNHCR, and WHO.

Sources: Finansdepartementet (2004), ØKOKRIM (2003a, 2003b, 2003c), and Transnational Communities Programme (2002).

In the United Kingdom, the government policy was informed by analyses of the Department for International Development and appreciated the need to strike a balance between tackling the financing of terrorism, and ensuring the free flow of remittances.⁷⁵ Norway, on the other hand, received international attention for the conviction of seven Somalis for their engagement in *hawala* transfers (See Box 3).⁷⁶

Even before IVTS were associated with financing of terrorism, a study commissioned by the Dutch Ministry of Justice affirmed that ‘many IVTS practices are misunderstood and treated with suspicion even when nothing illegal or unethical is involved’.⁷⁷ Simply suppressing IVTS will not prevent money laundering nor financing of terrorism. For instance, investigation of the September 11, 2001 terrorist attacks has found that both the formal financial sector and IVTS were used to transfer money to the terrorists.⁷⁸

A two-pronged approach to regulating IVTS has been suggested in a recent World Bank and IMF study.⁷⁹ First, efforts should be made to improve the level of transparency in existing IVTS systems by bringing them closer to the formal financial sector without altering their specific nature. This involves registering and regulating them, but with requirements attuned to the overall financial environment. In countries without a functioning banking system,

⁷⁵ House of Commons 2004a.

⁷⁶ ØKOKRIM 2003c, Transnational Communities Programme 2002.

⁷⁷ Passas 1999:3.

⁷⁸ Financial Action Task Force on Money Laundering 2003.

⁷⁹ El Qorchi, Maimbo and Wilson 2003.

requirements beyond basic registration may not be feasible. The intergovernmental Financial Action Task Force (FATF) has formulated guidelines that can be used as a frame of reference for regulating the IVTS sector.⁸⁰

Second, policymakers should address economic and structural weaknesses that may exist in the formal sector, and which encourage transactions by informal means. The current competitiveness of IVTS is based to a large degree on inefficiencies and shortcomings in formal sector financial services.

Part of the recent increase in remittances can probably be attributed to a shift from informal to formal transfers in the aftermath of 11 September 2001 and the subsequent efforts to close down transfers systems that could potentially be used to fund terrorist activity. Remittances from the United States to Pakistan are a case in point. As shown in Figure 7, declared remittances skyrocketed after 11 September 2001.

3.5 Personal couriers

Many remittance flows occur within transnational social spheres where there is also extensive travelling between diaspora communities and countries of origin. If there is also geographical concentration at both ends—i.e. migrants originating in a specific area living in proximity of each other in the diaspora—there is potential for extensive use of personal couriers to send remittances.

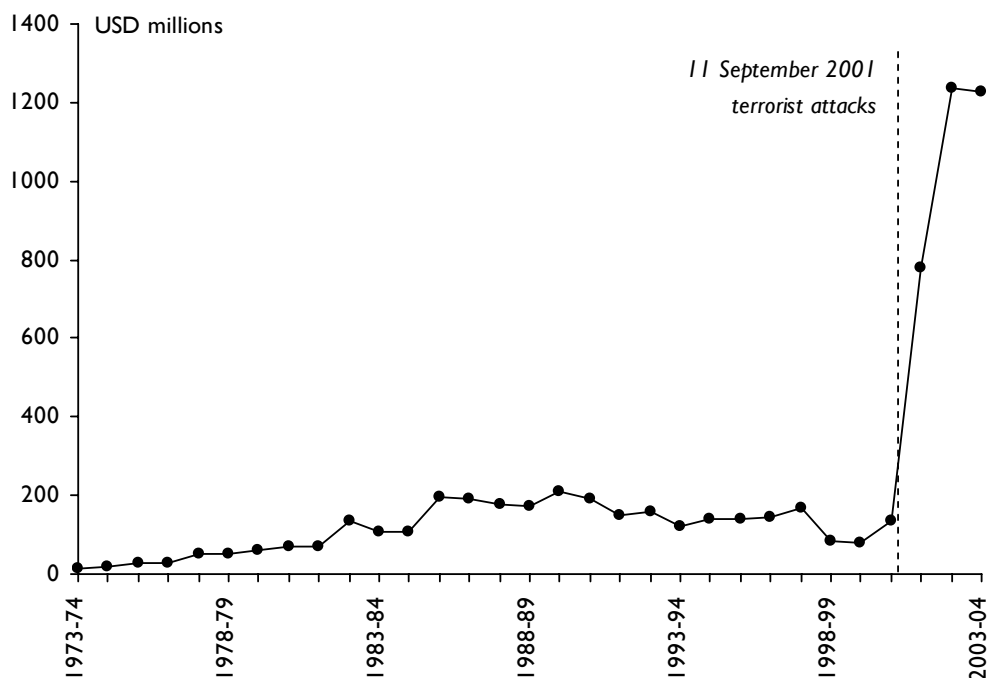


Figure 7. Remittances to Pakistan from the United States 1973-2004 (Fiscal years).

Note: Refers to incoming workers' remittances registered in Pakistan.
Source: State Bank of Pakistan (2004).

⁸⁰ Financial Action Task Force on Money Laundering 2003.

Table 12. Remittances to Morocco by country of origin and proportion remitted as cash, 2003.

	<i>Total remittances (MAD millions)¹</i>	<i>Proportion cash (%)</i>		<i>Total remittances (MAD millions)¹</i>	<i>Proportion cash (%)</i>
France	15,460	27	Switzerland	678	26
Italy	4,399	24	Saudi Arabia	558	25
Spain	3,205	28	UAE	529	10
Belgium ²	2,073	27	Canada	150	24
Netherlands	2,042	27	Denmark	147	66
United States	2,027	29	Norway	138	56
United Kingdom	1,670	52	Sweden	84	43
Germany	1,185	26	Bahrain	47	4

Source: Office des Changes (2004).

¹ Moroccan dirhams.

² Includes Luxembourg.

Most often, migrants on holiday bring cash to their country of origin on behalf of relatives or friends and distribute envelopes to the recipients. This is not only a practical arrangement for transferring remittances, but also a social practice that reinforces transnational connections.

Table 12 shows the proportion of remittances to Morocco that arrives as foreign currency cash and is exchanged in Moroccan banks—often between a quarter and half of total remittances. The authorities attempt to separate remittances from cash brought by tourists.⁸¹

3.6 Remittances in kind

There is often a flow of goods alongside monetary transfers. The nature and volume of such remittances in kind depends in part on characteristics of the sending and receiving economies. Where there is a higher price level in the migrant's country of origin, this stimulates remittances in kind either for personal consumption by the receivers, or for resale in the informal market.⁸² Even when the general price level and standard of living is lower in the country of origin, the price of certain products can be markedly higher than the lowest available price in the migrant's country of employment.

⁸¹ Personal communication with officials of Office des Changes, Rabat. The fact that the proportion of cash is particularly high in the flows from important source countries of tourists indicates that this is not completely successful.

⁸² Puri and Ritzema 2001.

4 Remittances use and development impacts

Knowledge about the role of remittances in families and communities is much more restricted than knowledge about their impact on national economies. The impact of remittances varies according to both the overall level of development and the nature of local migration dynamics. If there are mechanisms that exclude the poorest strata of the population from taking part in migration, remittances are likely to exacerbate existing inequalities. However, if migrants are wealthier to start with, remittances are more likely to be used for productive investments rather than household consumption, and this could have positive community-wide effects.

4.1 Conclusions from research on remittances and development

The broadest general conclusions of researchers in the field have shifted from a largely negative view on remittances a couple of decades ago to a more positive position today. It is possible to construct long lists of plausible negative and positive consequences of remittance inflows, but extremely problematic—and perhaps not very constructive—to attempt to estimate their overall effect on development processes.⁸³ Nevertheless, existing research can shed light on the key questions and different mechanisms involved, which in turn can be targeted by policy measures with the aim of increasing the development benefits of remittances.

4.1.1 *Investment and consumption*

Much of the literature on migration and development has been concerned with the division of remittance expenditure between investment and consumption. The realization that only a small proportion of remittances are used to set up small businesses, improve agricultural practices, or on other forms of ‘productive’ investment created disillusionment over the development impact of remittances among researchers and policy makers in the 1970s and early 1980s. More recently, the distinction between consumption and investment has been criticized by researchers that expenditure on ‘consumption’ items such as health and education should be seen as investment in human capital. Fur-

⁸³ Carling 1996.

thermore, increased consumption by poor families is often equivalent with poverty alleviation, which is a goal in its own right. The silencing of criticism for 'squandering' remittances is also based on the recognition that remittances are hard-earned money that migrants and their families should be entitled to spend as they wish.⁸⁴

4.1.2 *Income inequality*

In many communities of origin, remittances have a significant effect on income distribution. In short, this effect depends on the selectivity of migrants. If labour migrants are recruited mainly from lower income levels, the inflow of remittances to their dependants is likely to reduce income inequality. This has been the case in El Salvador, for instance, where remittances have been found to have 'a strongly egalitarian effect'.⁸⁵ As noted in section 1.1.2 above, however, the financial and social costs of overseas employment may exclude the poor from taking part in migration. If this is the case, their relative poverty may increase as higher-income groups benefit from remittances. It is possible that negative effects on income distribution will be lessened over time as the development of migration networks lowers the costs of emigration and allows the participation of more poor families.⁸⁶

Some empirical studies have found fairly complex influences of remittances on inequality. In a study in rural Egypt, the effect on poverty has been positive, since low-income households (lower quintile) produce their proportionate share of migrants.⁸⁷ However, the second and third quintiles are underrepresented, while the two top quintiles produce a disproportionately high share of migrants. The result has been that the positive effect on poverty has coincided with a negative effect on income distribution. A study from Mexico found that interfamilial inequalities decreased in the early stages of migration, but increased at a later stage.⁸⁸ Throughout this experience, inequality was reduced at the inter-regional level, since remittances flowed predominately to poorer, rural areas of origin.

Remittances may also have secondary effects on inequality. Regardless of the distribution of immediate increases in purchasing power, the expenditure of remittances may alter relative prices.⁸⁹ For instance, the nearly ubiquitous tendency of migrants to invest in land and in construction can lead to a rise in property prices that benefits local landowners who might not receive remittances themselves.

⁸⁴ Carling 2004c, Terry 2004.

⁸⁵ Kaimowitz 1990:644.

⁸⁶ World Bank 1995

⁸⁷ Adams 1991a, 1991b.

⁸⁸ Jones 1998.

⁸⁹ Stahl 1982

4.1.3 *Macroeconomic effects*

Remittances have the obvious positive effect of providing foreign exchange that strengthens the balance of payments. However, there are also possible negative effects arising from a large influx of remittances. First, they can stimulate import demand. Depending on the context in which emigration and transnational practices occur, there could be an increased preference for imported goods. Dependents of overseas workers might receive remittances in kind and thereby become accustomed to foreign products. Similarly, return migrants may continue to demand goods from abroad. These consequences may be extended to non-migrants households who adopt the consumption preferences of more affluent migrant families. The balance of trade can also deteriorate as a result of the effect of remittances on exchange rates. Large remittance inflows, like any large influx of foreign currency, can lead to appreciation of the local currency.⁹⁰ This has the effect of making exports less competitive, while stimulating imports. The remittance bonanza of Yemen in the late 1970s illustrates the potential for dramatic deterioration of the balance of trade as a result of large remittance inflows (Box 4).

There may also be positive effects on the balance of trade, such as the export demand stimulus provided by emigrant communities. Emigrants may open shops which specialize in export products from their home country, or they may demand foodstuffs and other items from the country of origin for their personal consumption.⁹¹

Yemen's experience points to the vulnerability of countries that are heavily dependent on remittances. Just as remittance inflows may have significant multiplier effects, the loss of such inflows will have repercussions in a variety of sectors in the domestic economy. However, it is possible to argue that dependence on remittances substitutes for other forms of dependence which are no less uncertain. Indeed, a large number of developing countries are heavily dependent on a limited number of export products and constantly affected by the vagaries of the world market. In this vein, the export of labour can be seen as an element in a diversified economy where different uncertainties may complement each other.

4.1.4 *Remittances as a disincentive to production*

Receiving remittances could be a disincentive to work, and therefore have the effect of slowing economic growth.⁹² This effect can be compounded by the social dynamics of migration whereby remittances become a symbol of the success of emigrants, and young people live in the (often unrealistic) hope of being able to emigrate, and fail to develop local livelihoods.

⁹⁰ World Bank 2004b.

⁹¹ Arnold 1992, Weiner 1987.

⁹² Chami, Fullenkamp and Jahjah 2003.

Box 4: Yemen's remittance bonanza

The Yemen Arab Republic (North Yemen) in the 1970s has been described as a laboratory case of wide-scale labour emigration. An estimated one third of all male workers were employed abroad in the mid-1970s. Virtually all were working in Saudi Arabia, mainly in construction and transport.

Figure 8. shows the tremendous growth in remittance receipts during the early 1970s, when the inflow increased more than tenfold in only four years. Around 1977, however, Yemeni workers in Saudi Arabia were faced with increasing competition from Pakistani and Indian labour migrants entering the labour force at wages less than a third of those previously demanded by Yemenis. The unskilled wage rate fell by roughly one half in less than six months and remittance inflows to Yemen stagnated.

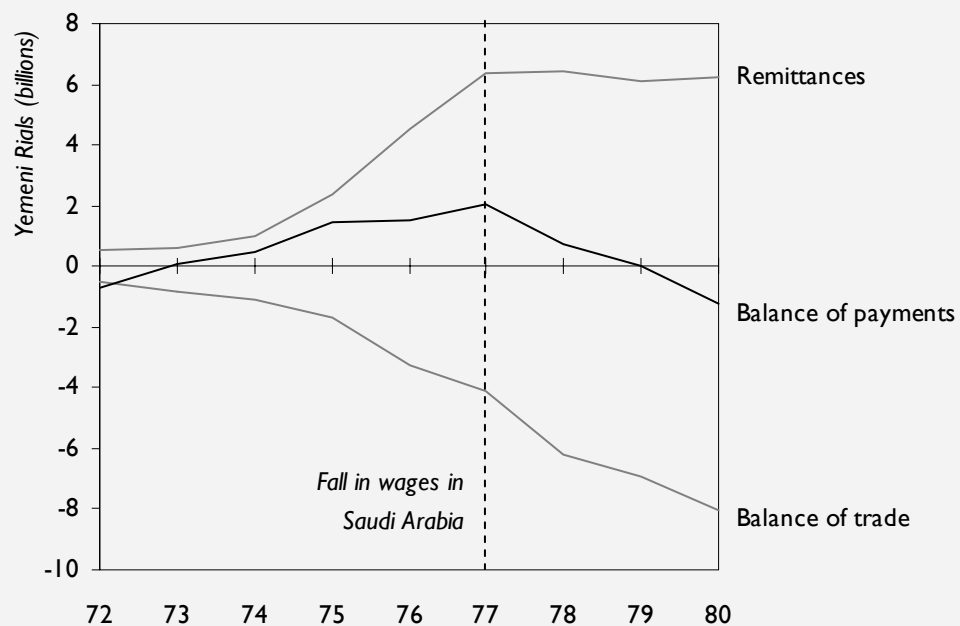


Figure 8 Yemen Arab Republic: Balance of payment items 1972-80.

Source: Central Bank of Yemen, quoted in Fergany (1982).

The remittance bonanza of the 1970s followed eight years of devastating civil war, and fuelled an explosive increase in private consumption. At first, the growth in remittances more than offset the deteriorating balance of trade. By the time of the decline in Saudi wages, however, the value of imports was nearly 40 times the value of exports. While remittance incomes stagnated, the balance of trade continued to deteriorate, resulting in a rapid plunge in the balance of payments.

The case of Yemen shows how improvements in the balance of payments due to remittances can be extremely vulnerable when remittances are used to fill a widening gap in the balance of trade. While established consumption trends are difficult to change, remittance incomes are highly volatile. In reference to the remittance system, what occurred was a decline in the available pool of remittances. In this case, it was due to sharp fall in wages. Thirteen years later, Saudi Arabia expelled 800,000 Yemeni workers in retaliation for Yemen's pro-Iraqi stance during the Gulf war. This constituted another and far more devastating reduction in the pool of available remittances, but this time in the form of a reduction in the migrant stock.

Sources: Birks and Sinclair (1980), Fergany (1982), Knights (1996), Martin and Martin (1982), Russell (1986).

A quantitative study in the Kayes region of Mali, found that households receiving remittances are relatively less productive in their agricultural production than those who do not receive remittances.⁹³ The authors' hypothesis is that the implicit insurance contractual arrangement between the migrant and the family in Mali leads to opportunistic behaviour that undermines efficiency among migrant households. They argue that development policies for the region—which is strongly affected by emigration and remittances—should not be targeted at investments by migrant families, who are found to 'waste the capital that they already own'.⁹⁴ Instead, they argue, policies targeted at increasing the productivity of non-migrant households could encourage emulation among the migrant households.

The important insurance dimension of remittances to agricultural households does not necessarily have a negative impact on productivity. A study from Botswana found that remittances allowed migrant households to undertake riskier agricultural practices.⁹⁵ This is interesting in light of the widely held view that risk-aversion inhibits growth in many peasant economies.

4.1.5 Remittances from refugees

Remittances are usually thought of as coming from labour migrants. However, remittances in the wake of refugee migration are also important. The limited evidence available indicates that these remittances are spent much in the same ways as the money sent by economic migrants—for daily subsistence, health care, housing and education.⁹⁶ Remittances to areas of conflict can also be the repayment of debts incurred by the remittance sender to finance his or her flight, or they can provide the financing for others to escape.⁹⁷ When the remittance receivers live in war-torn societies or as refugees in neighbouring countries, remittances can be essential to financing subsistence needs. However, remittances to war zones can also be used to support the warring parties, and therefore help perpetuate the conflict.⁹⁸

4.2 A model of remittance use and development impact

In order to identify possible policy options for increasing the benefits of remittances, it is useful to consider the links between remittance usage at present, and development and consumption in the future (Figure 9). In this model, 'development' is taken to mean *remittance-independent development*, i.e. future livelihoods that do not depend on future remittances. In a World Bank policy paper, David Ellerman expresses this understanding of development very clearly:

⁹³ Azam and Gubert 2002.

⁹⁴ Azam and Gubert 2002:26.

⁹⁵ Stark and Lucas 1988.

⁹⁶ Van Hear 2002.

⁹⁷ Koser and Van Hear 2003.

⁹⁸ Koser and Van Hear 2003, Van Hear 2003.

In a community now largely dependent on income from migrant remittances, development would mean building local enterprises that would *not* live off remittances directly or indirectly (via the multiplier) so that local jobs could be sustained *without* continuing migration and remittances.⁹⁹

If remittances today are only spent on consumption, future consumption has to be financed by future remittances (or other sources of income). If remittances are invested or saved, however, this could help finance future consumption. Collective investment in development projects will not produce direct future returns to the individual investors, but directly benefit the development of the community. When remittances are saved in financial institutions, this increases credit availability and can enable entrepreneurs to realize investments that have a positive impact on development. This could be a more realistic way of stimulating investment of remittances than promotion of entrepreneurship by migrants or remittance receivers themselves. Still, there is always a chance that investors will channel funds into uses with high yields, which might be different from uses with high development impacts. When migrants do invest, their emotional attachment to their (often marginal) regions of origin can help compensate for the disadvantages of these regions in the eyes of purely profit-seeking investors.

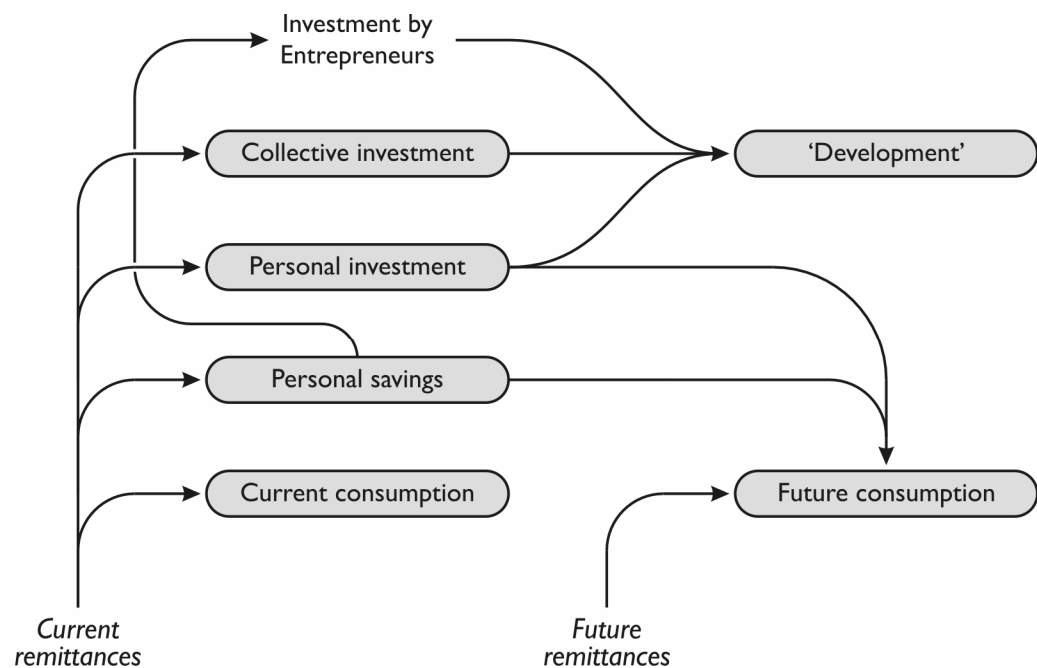


Figure 9. A model of remittance use and development impact.

Source: Carling (2004c).

⁹⁹ Ellerman 2003:24, emphasis in original.

5 Remittance policy approaches

Specific policy measures in the field of remittances and development will be addressed in the next chapter. Before doing so, however, it is important to take a broader look at the different possible approaches and the rationale behind them. This involves considering the different types of benefits that remittances can have, different ways of targeting emigrants and their families, the use narrow and broad policy measures, and the integration of migration and remittances in development strategies.

5.1 Possible benefits of remittances

Rather than simply distinguishing between investment and consumption, or ‘productive’ and ‘unproductive’ uses of remittances, it is possible to distinguish between benefits by means of their temporal and social distribution. The different outcomes can constitute different, and sometimes contrasting, policy objectives. Table 13 presents four types of benefits that accrue from selected categories of remittance use.

Intra-family transfers typically have *immediate benefits* for the individuals concerned, contributing to daily subsistence. It is reasonable to expect that a family whose basic subsistence needs are not met will spend remittance income on meeting those needs. In this case, remittances contribute directly to poverty alleviation, although there may not be a sustained effect. If the recipients are able to save or invest the remittances, this might result in *future benefits*.

Table 13. The distribution of benefits of remittances

	<i>Immediate benefits to the recipients</i>	<i>Future benefits to the recipients</i>	<i>Benefits to secondary beneficiaries</i>	<i>Remittance-independent development</i>
Buying imported goods	✓			
Buying local goods/services	✓		✓	(✓)
Spending on education		✓		✓
Saving in the bank		✓	(✓)	(✓)
Building a house		✓	✓	
Setting up a business		✓	✓	✓

Source: Carling (2004c).

In addition to this temporal extension of benefits, the benefits may or may not extend to *secondary beneficiaries* in the community. If remittances are spent on locally produced goods or services, the community benefits could be substantial, and even have a socially desirable profile. For instance, a large part of remittances worldwide are spent on construction. In poor countries where construction is relatively labour intensive, this sector can occupy a large part of the low-skilled and semi-skilled male (and sometimes female) labour force. Return migrants also frequently employ domestic workers. This provides many unskilled women with employment. In São Vicente, Cape Verde, an urban community marked by large-scale emigration, 20 per cent of unskilled men work in construction, and a staggering 47 per cent of unskilled women are domestic maids.¹⁰⁰ While both groups suffer from low wages and job insecurity, this does constitute a direct channelling of remittance income to the poorest members of the community—many of whom do not have relatives abroad themselves.

Finally, remittances can be used in such ways that they contribute to *remittance-independent development*, as defined above (section 4.2). While this is a desirable aim, it is clearly not the only way in which remittances can have beneficial effects. It is important not to let the best be the enemy of the good, in the sense of foregoing opportunities for increasing the benefits of remittances even without substantial contributions to development defined in this way.

5.2 Different targeting strategies

Different policy measures in the area of remittances vary with respect to how they target emigrants and/or their families. Some explicitly identify the target group, such as special bank accounts for emigrants, or public service bureaus catering specifically to emigrants. Alternatively, one can implement policy measures that do not target emigrants explicitly but have particular relevance to emigrants. This ‘implicit targeting’ can be based on analyses of the bottlenecks restricting migrants’ investment in particular, they can be concentrated geographically in regions of out-migration, or make use of social arenas with heavy emigrant presence, such as the Internet. Finally, there are many possible development policy measures that do not target emigrants in any way, but which can have an added impact due to the existing constellations of migration and transnational practices (including remittance flows). This applies to public sector reform, particularly as it affects investment. Out-migration from a poor country represents a potential that similarly disadvantaged countries without significant emigration lack. The returns to policies that are commendable in many settings could therefore be greater where out-migration is significant.

¹⁰⁰ 4. The figures refer to people with four years of schooling or less, calculated from Instituto de Emprego e Formação Profissional 2002-2003.

Policies that implicitly target emigrants deserve special attention because they minimize the possible negative social effects of giving an already privileged group special treatment. Furthermore, implicit targeting usually means a smaller element of social engineering than in policies that attempt to alter the behaviour of specific groups. The difference between policies that address structural elements of the SME investment climate versus policies that specifically attempt to promote entrepreneurship among migrants illustrates this point.

5.3 Narrow and broad policies

A second dimension of variation between remittances-related policy measures is their scope. Put simply, remittances are one aspect of transnational practices, which in turn are one element of migration. Correspondingly, policy measures directed towards migration flows (such as bilateral labour migration treaties) have a wide scope. Policies stimulating transnational connections or loyalty (such as dual citizenship legislation) have a somewhat more narrow scope, while most of the measures discussed in this report specifically target remittances only.

The distinction between narrow and broad policies is relevant for two reasons. First, the research on migrant transnationalism during the past decade firmly places remittances within the wider frame of transnational practices, and this insight should be incorporated into policy. Second, as many countries of origin face falling emigration flows, and potentially a decay of remittances, policy measures on remittances cannot be detached from policies on long-term diaspora management. Even on a short-term basis, it might be fruitful to consider the appropriateness of policies with different scopes.

5.4 Integration of migration and remittances in development policy

Countries vary widely in their approach to migration and remittances in development policy and planning. A small number of developing countries actively encourage emigration, with remittance generation as a principal motivation. Other countries have implemented measures to increase the volume of remittances from current emigrants, as will be discussed in section 6. In many countries, however, there is a potential for integrating migration and remittances more dynamically in development planning. This could include measures that aim to affect migration flows (such as facilitating poor people's access to migration opportunities) or interventions to increase the poverty-reducing effect of the existing migration dynamics. Sri Lanka is among the countries that have an explicit policy of mainstreaming poverty reduction into the promotion of overseas employment.

5.5 The division of labour between actors

Much of the literature on remittances implicitly assumes that policy initiatives must come from the authorities of remittance-receiving countries. There are, however, a number of actors with an interest in influencing remittance flows, their use, and their development impact. These include migrant associations and other NGOs in both home and host countries, multilateral agencies, host country authorities, and private business. The involvement of development agencies in remittance-sending countries is relatively recent.

Beyond assisting governments of remittance-receiving countries in formulating policy in the field of remittances, the other agents in the field can capitalize on their opportunity to act where the home country authorities cannot. Authorities in remittance-sending countries, their development agencies, and NGOs can make the most of their ability to maximize the benefits of outward remittances, for instance by supporting hometown associations or contributing to orderly and reasonable transfer mechanisms. Non-governmental organizations can engage with commercial markets in ways that state actors cannot, for instance by collecting, analyzing and distributing information on specific remittance service providers within migrant communities. This can be important for increasing competition and reducing prices in this market.

While players in the policy field should consider the division of labour among themselves, it is also important to distinguish between the different remittance spenders. As mentioned above, decisions on the use of different types of remittances are made by emigrants' families, emigrants themselves, and migrant collectives.

6 Remittance policy measures

This chapter addresses specific policy measures that have been, or can be used to increase the benefits of remittances. The interventions are grouped into six categories with respect to their intermediate objectives, i.e. the mechanisms through which they seek to strengthen the development impact of remittances:

- Affecting the characteristics of migration flows
- Affecting the volume of remittances
- Affecting remittance transfer mechanisms
- Affecting the management of remittance funds
- Affecting the uses and impact of remittances
- Affecting diasporas' contributions to development

In some cases, the same measure can serve different purposes. For instance, promoting competitive remittance transfer mechanisms through micro-finance institutions can affect the volume of remittances, the choice of mechanism, the management of remittances received, and indirectly, the access to credit in remittance-receiving country.

6.1 Interventions to affect the characteristics of migration flows

Policies that seek to directly affect migration flows are questionable as a strategy for generating remittance income because there are also many other aspects to migration. Nevertheless, the fact that countries of employment invariably wish to control the conditions of entry have made several countries of origin adopt active policies or bilateral agreements to ensure that migration occurs in ways that also benefit the migrants' country of origin.

6.1.1 *Increasing the number of workers abroad*

With reference to the model of remittance flows presented earlier (Figure 6, page 14), the first step governments could take to increase remittances is to increase the number of emigrants. However, most governments in developing countries have no policy to affect the level of emigration. The vast majority of those that do have such a policy seek to *lower* emigration levels and not to raise them (Table 14). The ten developing countries that had a policy of in-

creasing emigration in 2003 were Bangladesh, Ecuador, Egypt, Indonesia, Jordan, Pakistan, Thailand, Turkey, Vietnam and Yemen.¹⁰¹

Countries which have pursued an active policy of labour export have been criticized for not paying sufficient attention to the well-being of individual migrants and their families. However, government policies of facilitating emigration are often echoed by high levels of emigration aspirations in the population. For instance, a large Eurostat survey found that 33 per cent of Turkish men and 21 per cent of women intended to emigrate. The corresponding figures for Egypt were 21 and 4 per cent, respectively.¹⁰²

6.2 Interventions to affect the volume of remittances

With a given number of emigrants, several strategies are possible to increase the volume of remittances. While some countries have implemented mandatory requirements, the most common and most politically correct approach is to encourage migrants to remit through incentive schemes.

6.2.1 Mandatory remittances requirements

Mandatory remittance requirements dictate that a specified portion of the earnings of emigrant workers be remitted to the country of origin.¹⁰³ The best example of successful implementation is South Korea in the 1980s. Overseas workers were required to remit at least 80 per cent of their earnings. This could be implemented because the vast majority of emigrants were employed by Korean contractors abroad—a particular characteristic of Korean emigration.

Table 14. Government views and policies on emigration, 2003. Percentage of countries.

	Government views on the level of emigration			Government policies on emigration		
	Too low	Satisfactory	Too high	Raise	Maintain or No intervention	Lower
All countries	4	73	23	6	71	24
Region						
<i>Africa</i>	4	83	13	2	81	17
<i>Asia</i>	11	66	23	17	51	32
<i>Latin America, Caribbean</i>	0	70	30	3	76	21
Level of development						
<i>More developed regions</i>	0	75	25	2	72	25
<i>Less developed regions</i>	5	73	23	7	70	23

Source: United Nations (2004)

¹⁰¹ United Nations 2004.

¹⁰² Commission of the European Communities 2000.

¹⁰³ Abella 1984, El-Sakka 1997, Puri and Ritzema 2001, Russell 1986

Other countries that have implemented mandatory remittances requirements with lesser degrees of success include Bangladesh, Egypt, Pakistan, the Philippines, and Thailand.

A different approach to mandatory remittances has been taken by the Eritrean government.¹⁰⁴ Since independence in 1993, every adult in the diaspora has been asked to contribute 2 per cent of their income to the Eritrean state. Additional demands have been made in certain diaspora countries for limited periods. The monetary contributions have been collected in a very public way, underpinned by a strong sense of social obligation. As one Eritrean in Berlin put it, he would never miss a payment ‘because then I would be declaring that I am not an Eritrean’.¹⁰⁵ While the government’s strategy for generating remittances has been highly successful in the short term, it is threatened in the long term by a growing feeling of resentment within the diaspora. Put simply, this is based on a sentiment that is widespread among diaspora populations who feel that government in their country of origin value emigrants for their money, but are hesitant to give them any real political influence. The remarkable success in mobilizing remittances directly to the state is related to the strong sense of nationalism during and after the fight for independence, and is probably difficult, if not impossible, to emulate in other contexts.

6.2.2 *Incentive schemes*

A number of financial incentive schemes for attracting remittances have been employed by governments in countries of origin. The most prominent type of incentive is special bank accounts that give emigrants a premium interest rate on their deposits. In some cases, interest from such accounts is fully or partly exempted from taxation.¹⁰⁶

Some countries have also offered special bonds to emigrants which serve to finance public investments. Countries that have successfully issued sovereign bonds to members of their diaspora include Bangladesh, China, Eritrea, India, Israel, Lebanon, Pakistan and the Philippines.¹⁰⁷

In addition to financial incentives, remittances have in rare instances been stimulated by means of other inducements. The government of Turkey has introduced a scheme under which male emigrants can drastically reduce their compulsory national service period by paying the government a specified amount in foreign exchange.¹⁰⁸ While this specific policy measure must be seen in relation to the broader issue of the military obligations of nationals abroad, it constitutes a non-monetary incentive to remit.

¹⁰⁴ Koser 2003a, 2003b.

¹⁰⁵ Koser 2003a:175.

¹⁰⁶ Orozco 2002d

¹⁰⁷ Athukorala 1993, Johnson and Sedaca 2004, Siddiqui and Abrar 2003, Yamauchi 2004.

¹⁰⁸ Freeman and Øgelman 1998, Østergaard-Nielsen 2003b.

6.3 Interventions to affect remittance transfer mechanisms

Interventions in this area have two aims that are partially connected. First, a reduction in remittance transfer costs would mean that a greater portion of the earnings forgone by migrants can benefit their communities of origin, and possibly that migrants chose to remit more. This has emerged as a policy priority which is shared by many governments and international agencies.¹⁰⁹ There is little doubt that there is potential for reducing costs considerably. In the United States, for instance, increased competition in the remittance market has led to a fall in prices over the past few years. Whereas the cost of sending money to Mexico, Central America and the Caribbean in the 1990s averaged about 15 percent of the principal sent, this had fallen to 5–9 percent by 2003.¹¹⁰ The fall in prices has been lower than average for transfers to countries where the remittance market is dominated by a small number of companies. Prices also vary according to the level of competition between remittance-sending locations. Western Union charges USD 10 for sending USD 200 from New York to Mexico, while the charge is the equivalent of USD 23 in Norway. It is thought-provoking that cross-border transfers between related banks use the same technology and incur the same costs as domestic transfers, but are subject to much higher charges.¹¹¹ Furthermore, single-currency areas in developing countries, such as the CFA region¹¹² have not enjoyed the same fall in the cost of international money transfers that the EMU area enjoyed as a result of the introduction of the Euro.¹¹³

The second aim of interventions to affect remittance transfer mechanisms is to divert flows from informal to formal channels, and from cash-based to account-based channels.

6.3.1 *Stimulating competition among remittances transfer agents*

Evidence from the United States and other countries demonstrate that increased competition in money transfer markets lead to reduced prices and more money reaching the recipients. There are several possible strategies governments can adopt in order to stimulate competition:

- Reducing legal and bureaucratic barriers to market entry
- Enforcing explicit and transparent information on prices
- Promoting consumer awareness through information campaigns

¹⁰⁹ International Organization for Migration 2004, World Bank 2003a, 2004b, 2004c.

¹¹⁰ Orozco 2003b.

¹¹¹ Sander and Maimbo 2003.

¹¹² The CFA zone consists of the West African Economic and Monetary Union (WAEMU) with the members Senegal, Côte d'Ivoire, Burkina Faso, Mali, Benin, Niger, Togo and Guinea-Bissau, and the Central African Economic and Monetary Union (CAEMC) with the members Cameroon, the Central African Republic, Chad, Congo, Equatorial Guinea, and Gabon. Both unions share the currency CFA franc.

¹¹³ Sander and Maimbo 2003.

Box 5: How banks can gain and contribute

Setting up a successful remittances programme requires several steps for mainstream financial institutions. These can be summarized as follows:

- Identify a need among their customer base
- Employ bilingual staff who can communicate with the target customer group
- Conduct outreach and financial education through local organizations
- Establish a partnership with a financial institution in the migrants' country of origin

Citizens Bank in Dorchester, Massachusetts, has followed these steps and created a remittances programme that caters to the area's large population of immigrants from Cape Verde. Citizens Bank charges a flat fee of USD 10 for any amount remitted to one of its two partner banks in Cape Verde, while Western Union charges a minimum charge of USD 15 and as much as USD 29 for a typical remittance transfer of USD 250. In order to send remittances through Citizens Bank, the sender must have an account in this bank, and the receiver must have an account in one of the partner banks. On opening accounts, clients are given one-on-one financial training. During the programme's first three years of operation, 1000 formerly unbanked Cape Verdean immigrants became customers. This has helped the bank recover the costs of establishing the remittance programme and contributed to community development by reducing the number of unbanked households.

Source: Samuels (2003). See also Box 7.

6.3.2 *Stimulating the provision of remittance services by banks*

In some countries, banks have seen remittance senders as a potential client base and created competitive remittance services in order to attract new customers. As a Spanish bank director put it, 'an immigrant starts by sending money back home, but after four or five years he will want a mortgage, home insurance, revolving consumer credit—just like any other Spaniard'.¹¹⁴ In the United States, the provision of remittance services by mainstream financial institutions is becoming an important way of banking unbanked immigrants.¹¹⁵ When banks invest in establishing attractive remittances services this is socially beneficial for three reasons: First, prices are lowered and a larger proportion of remittances reaches the recipients. Second, the number of unbanked immigrants decreases. Third, more people in the receiving country are brought in to the banking system.

6.3.3 *Stimulating the provision of remittance services by credit unions and MFIs*

Potential links between remittances and microfinance have received considerable attention during the past years.¹¹⁶ Increased MFI and credit union involvement in the remittance market is desirable for several reasons:

- Since the outreach and accessibility of MFIs typically surpasses that of commercial banks, they can potentially make formal transfers more attractive to remittance receivers.

¹¹⁴ Crawford 2004:2.

¹¹⁵ Samuels 2003.

¹¹⁶ Brown 2004, Fernando 2003, Puri and Ritzema 2001, Robinson 2004, Sander 2003, Siddiqui and Abrar 2003, Vertovec 2004

Box 6: The three objectives of microfinance

Microfinance came to prominence across the developing world in the 1980s after experiments in Bolivia, Bangladesh, Indonesia and other countries had pioneered the concept. After a continuous development of thinking around microfinance and development, three overarching objectives for microfinance are now recognized.

- First, one should aim for a *broad and deep outreach*, meaning that MFIs should serve a large number of people, and reach the poorest of the poor.
- Second, MFIs should strive to be *financially sustainable* in the long term by making sure that their income covers their costs.
- Third, microfinance should have a positive impact on economic growth and/or on the alleviation of poverty and food insecurity.

There are sometimes trade-offs between the three objectives, and MFIs differ in their priorities. For instance, the success of individual borrowers, and the local development impact of micro-finance can be increased by providing training or marketing services, but the cost of providing these services may undermine financial sustainability and require subsidies from government or donor sources. Alternatively, MFIs that are not subsidized may find that their financial sustainability can be secured by targeting clients other than the very poor, even if this reduces the poverty alleviation impact of their services.

Source: Zeller and Meyer (2002)

- Remittance transfers as a fee-based product could provide revenue to MFIs and help them achieve financial sustainability without compromising the objectives of poverty-orientation and impact maximization.
- Non-members who receive remittances through a MFI often become members, thereby expanding the client base and reducing the number of unbanked households.
- The auxiliary training and marketing services offered by some MFIs can be used to enhance the capacity of return migrants or remittance receivers to invest the income from employment abroad in productive activities in the country of origin.

At the same time, there are significant obstacles to the entry of MFIs into the remittance market. First, most MFIs do not meet the regulatory requirements to engage in international money transfer services. Second, many MFIs are small-scale organizations without the necessary resources (organizational infrastructure, expertise and liquidity reserves) to enter the remittances market. Most of the MFIs that have already entered this market are registered as commercial banks and often have a history of being agents for regular remittance companies such as Western Union.¹¹⁷

In the United States, credit unions in 36 states are offering their members inexpensive remittance transfers to over 40 countries in Latin America, Asia, Africa and Europe through the IRnet transfer service. For transfers to Mexico and several Central American countries of up to USD 1000 IRnet charges a flat

¹¹⁷ Sander 2003.

rate of USD 10 per transaction. In the case of USD 400 sent to El Salvador, Western Union would charge USD 29 for the same service.¹¹⁸ In some cases, remittances sent through IRnet are also received and paid out through credit unions. This has several additional advantages for the receiving credit union and the local development process.

Table 15. Selected microfinance institutions offering remittance services

PRODEM (Bolivia)
Microenterprise Bank (Bosnia and Herzegovina)
Procredit (Bulgaria)
Banco Solidario (Ecuador)
Financiera Calpia (El Salvador)
Fonkoze (Haiti)
Equity Building Society (Kenya)
Microfinance Bank (Kosovo)
Microfinance Bank (Serbia)
Centenary Rural Development Bank (Uganda)
Microfinance Bank (Ukraine)

Sources: Sander (2003) and Fernando (2003).

Box 7: Haiti's Fonkoze—A model for MFI remittance services

Haiti is the most impoverished country of the Western Hemisphere, and depends heavily on remittances from the 1–2 million Haitians abroad. The Fondasyon Kole Zepol (Fonkoze) is a Haitian microfinance institution offering microcredit, savings, currency exchange and educational services through 18 branch offices throughout Haiti. More recently, Fonkoze has entered the remittance market and now offers an international deposit service called *Ayiti Dirèk Dirèk*, meaning 'Direct to Haiti'.

The service is founded on a mutually beneficial relationship between Fonkoze and its partner, City National Bank of New Jersey (CNB). Remittance senders deposit or transfer money to Fonkoze's CNB account (by means of checks, money orders or wires) and the corresponding amount is deposited in the recipient's Fonkoze account for a flat fee of USD 10. The CNB recognized the potential for attracting clients and therefore offers services at a very low cost. Fonkoze has one customer service representative in the United States.

CNB is headed by a Haitian-born president. It is striking that an ethnic connection triggered the partnership, which is now financially beneficial to all parties. The clients who most rapidly adopted Fonkoze's remittance services were parishes, churches and assistance organizations. Haitian immigrants were initially sceptical, not least because they found the costs suspiciously low. Today, the number of clients is growing steadily by word of mouth. Fonkoze exemplifies how a small, undercapitalized grassroots organization can tap into the remittances market to the benefit of their own finances and their clients.

Source: Hastings (2001, 2002). See also Box 5.

¹¹⁸ World Council of Credit Unions 2004.

6.4 Interventions to affect the management of remittance funds

6.4.1 Reducing the proportion of unbanked households in the remittance-receiving country

Being unbanked has several disadvantages: First, it involves safety risks as a result of conducting all financial transactions in cash, and guarding any savings in the form of cash. Remittance recipients are at risk when they collect large amounts of cash (by local standards) and carry it home. Second, the unbanked have limited possibilities for taking up loans or depositing savings for long-term financial stability. Third, the unbanked in many countries face much higher costs for basic financial services.¹¹⁹ All these factors imply that bringing remittance receivers into the banking system will increase the potential development effects of remittances.

One of the barriers to account ownership for low-income households could be that mainstream financial institutions are reluctant to invest in the research, product development and marketing necessary to expand financial services to lower-income clientele. These groups often have particular needs and will respond to products and solutions that are tailored to their situation. Financial institutions may need incentives to pursue research and product development in this area.¹²⁰ The US Treasury Department's *First Accounts* programme exemplifies a strategy for expanding access to financial services for low- and moderate-income individuals (Box 8).

Efforts to improving access to banking services can be undertaken in cooperation with large employers, who can reap significant benefits from moving more of their workers to direct deposit of payroll. This would cut payroll processing costs and reduce problems from theft or fraud associated with checks or cash.¹²¹

Box 8: The First Accounts Programme

The US Treasury Department's First Accounts programme aims to move a maximum number of 'unbanked' low- and middle-income individuals to a 'banked' status. The strategy behind the programme has been to support the development of financial products and services that can serve as replicable models in other communities without the need for ongoing public subsidies. As initially conceived, the First Accounts initiative had four main components: *First Accounts* — support to cover the costs financial institutions incurred in offering low-cost, electronic banking accounts to low-income individuals; *Access* — support for expanding access to automatic teller machines (ATMs), points of sale (POS) terminals, Internet, or other distribution points in low-income neighbourhoods with low access; *Financial Education* — support for financial institution and non-profit initiatives to provide financial education and counselling to low-income households; *Research* — funding for research into the financial services needs of low-income individuals and development of financial products designed to meet these needs.

Sources: Barr (2002) and US Department of Justice (2004).

¹¹⁹ Barr 2002.

¹²⁰ Barr 2002.

¹²¹ Bair 2003, Barr 2002.

6.4.2 Reducing the proportion of unbanked households in the remittance-sending country

Reducing the proportion of unbanked household among remittance-sending immigrants is positive for individual lives and for community development for the same reasons as in remittance-receiving countries. In addition, sending remittances from a bank or credit union account can stimulate recipients to receive remittances in the same way.

6.4.3 Financial education of remittances senders and receivers

A lack of financial literacy not only has direct adverse effects for the individuals or families concerned, but market operations and competitive forces are compromised when consumers lack the skills to manage their finances effectively.¹²² Promoting financial literacy among remittance receivers can increase the consumption smoothing effect of remittances and enhance the capacity of remittance receivers to use remittances for creating sustainable livelihoods. Partnerships with community NGOs can be a successful way of raising financial literacy levels.

6.5 Interventions to affect the uses and impact of remittances

Policies to affect the use of remittances include engagement with HTAs, and facilitation of investment by individual migrants.

6.5.1 Matching communal remittances with government funds

One way of attracting remittances and facilitating their investment in development projects is to match communal remittances with government funds in the migrants' countries of origin. One such programme is the Mexican *Iniciativa Ciudadana 3x1* under which every dollar remitted by Mexican HTAs is matched with one dollar each from federal, state and municipal governments.¹²³ The average project has a budget of about USD 40,000 of which USD 10,000 is donated by the HTA.¹²⁴ The majority of projects invest in infrastructure and utilities, such as the construction of roads, street paving, the provision of water, sewage and electricity, small dams and water treatment pools. There are also examples of support for other community facilities such as computers in schools. The emphasis on infrastructure projects reflects the preference of the government officials involved. In addition, these are tangible and highly visible projects that appeal to HTA members. After more than a decade of programmes based on matching funds, several lessons have been learned.¹²⁵

- Motivating HTAs to work on development requires understanding their practices and identifying opportunities to collaborate with them.

¹²² Braunstein and Welch 2002.

¹²³ Johnson and Sedaca 2004, Orozco 2000, 2003a, Public-Private Infrastructure Advisory Facility (PPIAF) 2002a, 2002b.

¹²⁴ Orozco 2003a.

¹²⁵ Orozco 2002c, 2003a.

- HTAs often have the organizational capacity to promote and carry out tangible, short term, small- scale development projects.
- Some HTAs face challenges in adequate project identification, or in the co-operation with local partners to manage and carry out projects
- An HTA's identification of needs does not always coincide with the most immediate development needs of the community.
- Development agencies can play an important role in providing a menu of project options to HTAs.

The Mexican matching funds programmes are generally referred to in very positive terms in the literature on remittances and development. Nevertheless, such programmes raise difficult questions regarding priorities for the expenditure of scarce public funds in developing countries. In most cases, there will be poorer communities with less emigration and smaller private remittances in other parts of the country of origin. When authorities give priority to investments in infrastructure in areas where HTAs can provide part of the funding, this must be thought through in the light of overall development strategy. In some cases, it can be argued that investing in infrastructure in areas of HTA presence gives higher returns because it is likely to stimulate entrepreneurial activity by current or former emigrants.

6.5.2 *Reviewing financial policy and regulations to promote investment by migrants*

The macro-level financial investment climate affects migrant investments as well as the larger-scale foreign investments that policy-makers often have in mind. Investment of remittances can be inhibited by restrictions on the repatriation of savings and other funds, and by the indirect taxation of remittances through foreign exchange controls.¹²⁶ Investment by migrants could need special attention in financial policy formulation because they are often neither fish nor fowl—unlike most foreign investment projects, they are very small, and unlike most SME investments, they have an international component.

6.5.3 *Improving the investment climate for small and medium enterprises*

The costs of starting a business vary substantially between remittance-receiving countries (Table 16). In many cases, entrepreneurs must undertake more than ten different procedures, which could take more than three months to complete. In more than half the countries on the list, the monetary cost of starting a business exceeds the per capita gross national income (GNI). Making it easier to start and run a business is seen as instrumental to economic development.¹²⁷ Migration and remittances is relevant because the returns to investment in simplified business regulation can be greater in countries of emigration with potential entrepreneurs in the diaspora.

¹²⁶ Sander and Maimbo 2003.

¹²⁷ World Bank 2004a.

Table 16. The costs of starting a business in major remittance-receiving countries, 2004.

	Number of procedures required	Total time required (days)	Per cent of GNI per capita		Index of barriers to entry (relative to average) ¹
			Total official cost	Minimum capital required	
Jamaica	7	31	15	0	-2.1
Nepal	7	21	74	0	-1.9
Morocco	5	11	12	719	-1.8
Mongolia	8	20	8	182	-1.7
Tunisia	9	14	11	327	-1.3
Sri Lanka	8	50	11	0	-1.3
Bangladesh	8	35	91	0	-1.2
Samoa	7	73	18	0	-0.9
Pakistan	11	24	36	0	-0.9
Albania	11	47	32	41	-0.2
Nigeria	10	44	95	59	-0.2
Serbia and Montenegro	11	51	10	120	-0.1
Nicaragua	9	45	170	0	-0.1
Croatia	12	49	14	24	0.0
Benin	8	32	197	333	0.1
Dominican Republic	10	78	25	2	0.2
Bosnia and Herzegovina	12	54	46	65	0.4
Senegal	9	57	113	270	0.4
Colombia	14	43	27	0	0.4
Portugal	11	78	14	40	0.5
Guatemala	15	39	63	32	0.9
Honduras	13	62	73	37	1.0
Jordan	11	36	52	1148	1.8
Uganda	17	36	131	0	1.8
Ecuador	14	92	47	10	1.9
Egypt	13	43	63	816	2.0
Mali	13	42	187	482	2.1
Azerbaijan	14	123	15	0	2.5
Togo	13	53	229	486	2.7
El Salvador	12	115	128	133	2.7
Cambodia	11	94	480	394	4.6
Yemen, Rep.	12	63	269	1561	5.0
Average	11	52	86	228	0.5
OECD countries	6	25	8	44	-2.5

Bold font indicates partner countries. Countries in the table are all those with inward remittances greater than 2.5 per cent of GDP in 2002 (International Monetary Fund 2003). Sources: Djankov *et al.* (2002) and World Bank (2004a).

¹ The index is calculated as the sum of standardized values (z-scores) for each of the four indicators, based on the mean and standard deviation of all 144 countries surveyed. Negative values indicate lower barriers to entry than the global average.

Box 9: East African Asian women's diasporic business connections

In the United Kingdom, women with East African Asian backgrounds have used their diasporic connections to develop a business niche in the market for a particular kind of Asian clothing—ready-to-wear *salwaar kameez*, a Punjabi dress composed of a long shirt and loose trousers. While standard *salwaar kameez* have been readily available, immigrant women have seen the potential for more up-marked designer wear. Their entrepreneurial response to this demand has created a transnational market chain in which garments are designed in the United Kingdom, manufactured in India, and retailed to Asian communities in the United Kingdom, South Africa and the United States. What the UK-based entrepreneurs have done, is to capitalize on the market size of the global South Asian diaspora, and on the variations in market conditions within it.

Source: Hardill and Raghuram (1998).

6.6 Interventions to affect diasporas' contributions to development

6.6.1 Facilitating transnational entrepreneurship

Investment policies in both sending and receiving countries of international migrants can be sensitive to the needs of migrant entrepreneurs who wish to exploit their transnational connections for doing business. Since most migrant entrepreneurs have small businesses, large fixed costs associated with registering an international firm can be difficult to sustain. As illustrated in Box 9, migrants' diasporic connections and sensitivity to niche markets can produce prospering businesses.

6.6.2 Strengthening the capacity of migrant associations to engage in development projects in their countries of origin

The experience with HTAs in the United States shows that lack of organizational capacity is often a barrier to their successful involvement in development projects (cf section 6.5.1). In addition to providing matching funds, governments can engage actively with HTAs who have the funds and commitment to constitute valuable development agents, but lack the expertise or organizational capacity to make the most of these resources.

6.6.3 Elaborating strategies of long-term diaspora management

When remittances come from established emigrant communities, long-term management of relations with the diaspora is a major challenge for country of origin. How can a country of origin secure the diaspora's ties with the homeland? Recent research on migrant transnationalism is replete with examples of such efforts at the level of rhetoric.¹²⁸ For instance, leaders of the Philippines and Mexico have actively sought to discursively construct migrants as national heroes. While this is recognized, interpreted as an instrumental move, and attributed great significance, such analyses are—to my knowledge—absent from policy recommendations in the literature on remittances.

¹²⁸ Basch, Glick Schiller and Szanton Blanc 1994, Carling 2002b, Martínez-Saldaña 2003, Rafael 1997, Smith 2003, Tyner 1997.

Box 10: Learning from universities

Universities in the United Kingdom have recently been challenged by the government to diversify their funding by developing a culture of charitable giving among their alumni. This challenge has certain parallels with the one faced by countries of emigration that wish to capitalize on their diaspora, especially when the diaspora consists of people born and raised abroad without the close family ties that encourage traditional remittances. A principal difference between a university and a country of emigration is that the latter does not collect money, but rather, encourage transfers to others. Nevertheless, there are lessons to be learnt from universities.

When UK universities sought to benefit from the experience of universities in the United States—some of which extract money from more than half their alumni every year—three lessons stood out: 1) Graduates are more likely to open their wallets if they feel part of the university community. This calls for letters, glossy magazines and reunions. The government of a country of emigration can similarly use different forms of outreach and exchanges can enhance diaspora members' sense of belonging. 2) Universities should avoid telling potential donors that they 'need' money, which resembles asking the bank manager for a loan on the grounds that you are poor. Universities need to give donors a positive reason to give. The same applies to emigrants' investment of resources in their countries of origin. In many cases, people leave because they see no hope for the future. If they retain this feeling with respect to their country of origin, it will discourage donations or investment. Having said that, emigrants are often very supportive in times of crises with easily identifiable cause, such as natural disasters. 3) Large donors must be given special treatment. For countries of emigration, this applies particularly to home town associations and other collectives. If donors feel that the local authorities obstruct more than facilitate in the realization of development projects, for instance, it can have detrimental effects on the donors' commitment to development issues in the country of origin.

Source: Budd (2003).

A policy recommendation advising political leaders to start calling migrants national heroes, would be too simplistic. However, national governments must reflect upon how they see the diaspora's role in national development, and how they can communicate this to diaspora members and to non-migrants at home.

A related question is what the role of migrant associations should be? Part of the reason why remittances are driven by recent immigration, is that recent migrants are likely to have close relatives in the country of origin, whereas their descendants will have more distant relatives. Contributions from an established diaspora consequently have to be structured in other ways than through close kinship ties. Migrant associations can play a key role here, as they often do among recent migrants. As noted earlier, however, associations also serve other purposes, such as promoting the status of individuals. This characteristic of the institutional landscape can in fact discourage the majority of migrants or diaspora members from organizing. This does not necessarily mean that they are not part of a diaspora community, or (wish to) engage directly with the country of origin. It is therefore necessary to explore alternative ways of reaching and engaging with the diaspora. The Internet represents important opportunities in this respect, especially because many diaspora members are already using ethnically oriented Internet services.

Many countries of origin have established web sites or other information services directed to emigrants. However, these are often in need of revision by experts in information, marketing or public relations.

Box 10 gives a perspective on another challenge of maintaining loyalties, namely the policies of universities vis-à-vis their alumni populations.

6.7 Remittances-related activities of development agencies

Several European government agencies for development cooperation have come relatively far in integrating immigration and international development cooperation. In addition to the countries mentioned here, international development agencies in Sweden, Denmark and Germany have taken an active interest in migration and remittances during the past few years.

6.7.1 The Netherlands

In July 2004, the minister of development cooperation and the minister of immigration and integration presented a joint policy report to the House of Representatives of the Dutch parliament on the links between migration and development.¹²⁹ The report elaborates on the concept of an integrated foreign policy (*geïntegreerd buitenlandse beleid*) that sees migration as a means to development, and development policy as a means towards long-term migration control. Suriname, Indonesia, Afghanistan, Ghana, Cape Verde, Pakistan and Vietnam are all important source countries of immigration to the Netherlands *and* partner countries for Dutch development cooperation. The only important low-income country of origin that is not a partner in development cooperation is Somalia. An integrated foreign policy as formulated in the report has several aims:

- Integrate of migration and development policy in relation with important countries of origin (both at the national, EU and multilateral levels).
- Pay attention to migration in development cooperation, and emphasize migration-development links in the dialogue with countries of origin, for instance with respect to PRSPs.
- Pay attention to the situation of migrants in policy on human rights, and to the human rights of migrants in the elaboration of migration policies.
- Integrate policy on the prevention of forced migration and the protection of refugees, paying special attention to increasing the capacity for adequate protection in the region.
- Integrate migrant organizations in the Netherlands in the elaboration and practice of Dutch development cooperation (See Box 11).
- Improve the development impact of remittances, especially through stimulating the reduction of transaction costs and facilitating communal remittances for development purposes.

¹²⁹ Tweede Kamer 2004.

Box 11: A contest on development projects for migrant organizations

In 2003 three Dutch NGOs launched a contest for migrant organizations on development projects that built on migrants' experience and competence to promote development in their countries of origin.¹ Among the key criteria were: A) improvement of the social and/or legal situation of immigrants in the Netherlands and/or upon return; B) explanation of how such improvement will have positive effects upon the development situation in the country of origin; and C) A plan for using the project as a contribution to a positive image of immigrants in Dutch media and society. In addition, a plan for supplementary funding was required. Three winning projects were awarded € 10,000, € 7,500 and € 5,000, respectively. The organizers considered the initiative a great success and decided to repeat it in 2004.

¹ Cordaid (one of the largest international development organizations in the Netherlands), Stichting Oikos (an ecumenical organization focusing on development-friendly change in Dutch society) and Stichting Mondiale Samenleving (an organization by and for refugees in the Netherlands). The programme is called *Ideeenwedstrijd voor migranten over ontwikkelingssamenwerking*.

- Facilitate voluntary return and reintegration through assistance to migrants before and after return, and assistance to the communities into which the migrants reintegrate.
- Facilitate regulated labour migration while limiting the loss of human capital for developing countries.
- Prevent illegal migration, trafficking and human smuggling.

6.7.2 United Kingdom

The Department for International Development (DFID) sees remittances as 'a key tool in conquering poverty'.¹³⁰ The agency has identified several goals for its activities in the area of remittances: 1) Share international best practice, 2) understand key technological innovation, 3) help governments develop financial regulatory frameworks and policies that improve the operation and supervision of financial markets, and 4) help build domestic financial infrastructure in developing countries and diversify services to the unbanked poor, in cooperation with other donors.¹³¹ There is a team within DFID's policy division looking at financial sector reform and banking systems, particularly in rural areas, and the linkages with remittance issues.¹³²

Much of DFID's current engagement in migration and remittances is based on the 1997 White Paper on international development.¹³³ This includes investigation into mechanisms for transfer of skills, experience and other resources from migrant communities to their countries of origin, assistance with the UNDP Diaspora Trust Fund programme in Nigeria, consultations with the Indian diaspora on the Country Assistance Plan, and support for Connections for Development, a network of black and ethnic minority community organisations which aims to mobilise civil society for action on development. Most of

¹³⁰ DFID and The World Bank 2003:38.

¹³¹ DFID and The World Bank 2003.

¹³² House of Commons 2004a.

¹³³ United Kingdom Government 1997

these interventions are still at a very preliminary stage, and they hardly meet the expectations raised in the 1997 White Paper.¹³⁴

In October 2003, DFID co-organized a conference on migrant remittances with the World Bank.¹³⁵ In April 2004, DFD received a commissioned report on ‘the contribution of UK-based diasporas to development and poverty reduction’ containing a series of policy lessons for DFID.¹³⁶ In June 2004, the House of Commons International Development Committee presented its report ‘Migration and development: How to make development work for poverty reduction’ which includes a separate chapter on remittances.¹³⁷

6.7.3 Italy

Italian development cooperation emphasizes decentralized cooperation and trans-local partnerships between regions in Italy and partner countries. Migration and remittances has recently become an important element in these partnerships as well as in bilateral cooperation at the national level.¹³⁸ The variety of local experiences has been used to outline four possible models for integrated migration and development cooperation:¹³⁹

- Facilitating the circulation of qualified individuals (in areas as diverse as business development, medicine, teaching and arts and crafts) between Italy and developing countries.
- Facilitating ‘transnational business incubation’ through assistance to potential return migrant entrepreneurs.
- Pooling funds from migrant associations, regional and national development cooperation authorities in coordinated projects.
- Assisting capacity building among immigrants to enhance their potential for cooperation with countries of origin.

6.7.4 Multilateral agencies

A large number of multilateral agencies and international organizations have also become involved in remittances-and-development issues. These include the International Organization for Migration (IOM), the World Bank, the Inter-American Development Bank (IDB), the Asian Development Bank (ADB), and the International Labour Organization (ILO). The activities of these organizations will not be discussed here, but IOMs programme on Migration for Development in Africa (MIDA) deserve special mention (Box 12). This is based on recent insights into the dynamics of migration and transnationalism, and could serve as a frame of reference for policy initiatives.

¹³⁴ Van Hear, Pieke and Vertovec 2004

¹³⁵ DFID and The World Bank 2003

¹³⁶ Van Hear, Pieke and Vertovec 2004

¹³⁷ House of Commons 2004a

¹³⁸ Ceschi and Pastore 2003, Fiorini 2003, Mazzali, Stocchiero and Zupi 2002, Stocchiero 2001, 2004.

¹³⁹ Stocchiero 2004.

Box 12: Migration for Development in Africa (MIDA)

In 2001, the International Organization for Migration (IOM) launched the programme 'Migration for Development in Africa' (MIDA). This is an institutional capacity-building programme that aims to develop the potential synergy between the profiles of African migrants and the demand from African countries, by facilitating the transfer of vital skills and resources of the African diaspora to their countries of origin. The programme is based on the notion of mobility of people and resources, including temporary, long-term or 'virtual' return. This differs from a similar programme in the past (RQAN) that was more narrowly focussed on return and reintegration. The approaches of MIDA are tailored to meet the needs of the countries of origin without jeopardizing migrants' legal or social status in their host countries or newly adopted home countries. Under MIDA African countries and the IOM work together to implement activities in six areas:

- Small-scale enterprise development
- Dialogue and migration policy options
- Remittances management
- Information campaigns
- Skills transfer
- Assessment surveys and database development

Under the area of remittances, MIDA aims to A) develop cost-saving methods for remittance transfers and B) channel remittances to development-related investments. As part of the second point IOM has promoted the concept of an African Diaspora Remittance Fund which combines aspects of corporate finance, trade finance, investment fund management and poverty reduction to create a new financial product for the African diaspora and their families.

Source: International Organization for Migration (2004)

7 Statistics on remittances to Norway's partner countries

This chapter presents a series of statistics on migration and remittances in Norway's partner countries in development cooperation. The data that stems from balance of payments statistics should be interpreted with reference to the limitations discussed in section 2.1.

Table 17. Classification of Norway's partner countries by the significance of remittances.

	Region		
	Latin America	Africa	Asia
Remittances of high importance to the national economy	<i>Nicaragua</i>	<i>Eritrea</i>	<i>Afghanistan</i>
	<i>Guatemala</i>	<i>Mali</i>	<i>Bangladesh</i>
		<i>Nigeria</i>	<i>Nepal</i>
			<i>OPT¹</i>
			<i>Pakistan</i>
		<i>Sri Lanka</i>	
Remittances presumably of limited importance to the national economy, but significant in certain regions or sectors of society		<i>Malawi</i>	<i>China</i>
		<i>Mozambique</i>	<i>Indonesia</i>
		<i>Uganda</i>	<i>Timor-Leste</i>
		<i>Zambia</i>	<i>Vietnam</i>
Remittances presumably of low importance to the national economy		<i>Angola</i>	
		<i>Ethiopia</i>	
		<i>Kenya</i>	
		<i>Madagascar</i>	
		<i>South Africa</i>	
	<i>Tanzania</i>		

Note: The classification is subjective, based on the totality of available information and should be seen as tentative.

¹ Occupied Palestinian Territory.

Table 18. Classification of recipients of bilateral development cooperation through Norad by remittances as a proportion of GDP.

Remittances as a proportion of GDP, 1992-2001 average					
	<i>>10.0</i>	<i>2.5–9.9</i>	<i>0.5–2.4</i>	<i>0.0–0.4</i>	<i>No data</i>
Main partner countries		<i>Bangladesh</i> <i>Nepal</i>		<i>Malawi</i> <i>Mozambique</i> <i>Uganda</i>	<i>Tanzania</i> <i>Zambia</i>
Other partner countries	<i>Eritrea</i>	<i>Mali</i> <i>Nigeria</i> <i>Sri Lanka</i> <i>Nicaragua</i>	<i>Guatemala</i> <i>Pakistan</i>	<i>Angola</i> <i>China</i> <i>Ethiopia</i> <i>Indonesia</i> <i>Kenya</i> <i>Madagascar</i>	<i>Afghanistan</i> <i>South Africa</i> <i>Timor-Leste</i> <i>Vietnam</i> <i>OPT¹</i>
Other recipients of bilateral development cooperation through Norad	<i>Albania</i> <i>Cape Verde</i> <i>El Salvador</i> <i>Jordan</i> <i>Lebanon</i> <i>Yemen</i>	<i>Belize</i> <i>Bosnia and Herzegovina</i> <i>Burkina Faso</i> <i>Croatia</i> <i>Dominican Republic</i> <i>Ecuador</i> <i>Egypt</i> <i>Honduras</i> <i>Jamaica</i> <i>Sudan</i>	<i>Azerbaijan</i> <i>Barbados</i> <i>Bolivia</i> <i>Costa Rica</i> <i>Guinea-Bissau</i> <i>India</i> <i>Iran</i> <i>Macedonia</i> <i>Mauritania</i> <i>Mexico</i> <i>Mongolia</i> <i>Niger</i> <i>Paraguay</i> <i>Peru</i> <i>Philippines</i> <i>São Tome and Principe</i> <i>Senegal</i> <i>Seychelles</i> <i>Turkey</i>	<i>Argentina</i> <i>Bhutan</i> <i>Botswana</i> <i>Brazil</i> <i>Burundi</i> <i>Cambodia</i> <i>Cameroon</i> <i>Chad</i> <i>Cote d'Ivoire</i> <i>Gambia,</i> <i>Ghana</i> <i>Laos</i> <i>Lesotho</i> <i>Malaysia</i> <i>Maldives</i> <i>Mauritius</i> <i>Namibia</i> <i>Papua New Guinea</i> <i>Rwanda</i> <i>Sierra Leone</i> <i>Syria</i> <i>Thailand</i> <i>Turkmenistan</i> <i>Uruguay</i> <i>Uzbekistan</i> <i>Zimbabwe</i>	<i>Congo, DR</i> <i>Cuba</i> <i>Equatorial Guinea</i> <i>Fiji</i> <i>Haiti</i> <i>Liberia</i> <i>Myanmar</i> <i>North Korea</i> <i>Somalia</i> <i>Swaziland</i>

Source: World Bank (2003b).

¹ Occupied Palestinian Territory.

Table 19. Population and migration indicators for Norway's partner countries.

	Population (millions, 2003)	Refugee population abroad (2003)		Cumulated net migration (1965-2000) ²		Government policy on emigration levels (2003) ³	
		Number (thousands)	Number per 1000 inhabitants	Number (thousands)	Number per 1000 inhabitants	View	Policy
Guatemala	12.3	6.7	0.5	-1195	-10.5	—	—
Nicaragua	5.5	4.0	0.7	-403	-7.9	—	—
Angola	13.6	323.6	23.7	-117	-0.9	—	—
Eritrea	4.1	124.0	29.9	-358	-8.7	—	—
Ethiopia	70.7	62.6	0.9	115	0.2	—	—
Kenya	32.0	3.2	0.1	169	0.6	—	—
Madagascar	17.4	0.1	0.0	-81	-0.5	—	—
Malawi	12.1	0.1	0.0	-214	-2.1	—	—
Mali	13.0	0.5	0.0	-1328	-12.2	—	Maintain
Mozambique	18.9	0.1	0.0	-828	-4.7	—	—
Nigeria	124.0	24.4	0.2	-181	-0.1	—	—
South Africa	45.0	0.3	0.0	865	2.0	—	—
Tanzania	37.0	0.7	0.0	624	1.9	—	—
Uganda	25.8	35.2	1.4	-141	-0.6	—	—
Zambia	10.8	0.1	0.0	189	1.9	—	Lower
Afghanistan	23.9	2136.0	89.4	-3075	-11.6	—	—
Bangladesh	146.7	5.6	0.0	-890	-0.7	Too low	Raise
China	1304.2	132.4	0.1	-3960	-0.3	—	Maintain
Indonesia	219.9	13.1	0.1	-2107	-1.0	Too low	Raise
Nepal	25.2	1.2	0.0	-561	-2.4	—	—
OPT ¹	3.6	427.8	120.3	-269	-9.1	.	.
Pakistan	153.6	24.4	0.2	-229	-0.2	—	Raise
Sri Lanka	19.1	122.0	6.4	-1220	-6.6	—	Maintain
Timor-Leste	0.8	0.1	0.2	-182	-24.7	.	.
Vietnam	81.4	363.2	4.5	-1814	-2.3	Too low	Raise

Sources: World Bank (2004d), United Nations (2002, United Nations 2004), UNHCR (2004), author's calculations.

¹ Occupied Palestinian Territory.

² Net migration is the difference between immigration and emigration. The cumulated net migration gives a rough indication of the size of the diaspora. Several caveats are in order, however. First, substantial emigration can be obscured by foreign immigration which contributes to levelling out the net migration. Second, these figures are not influenced by the subsequent development of the emigrant population.

³ Dashes (—) indicate a view that emigration levels are 'satisfactory', and the absence of any policy intervention to affect emigration levels. Periods (.) indicate missing information.

Table 20. Net migration rates for Norway's partner countries, 1965-2000.

	Average annual net migration rate (per thousand inhabitants) ²						
	1965-70	1971-75	1976-80	1981-85	1986-90	1991-95	1996-00
Guatemala	-2.0	-3.6	-7.0	-6.9	-6.1	-4.3	-2.2
Nicaragua	-1.8	-2.2	-3.3	-4.7	-7.2	-2.4	-2.5
Angola	-5.8	-3.0	0.6	6.1	-3.3	2.7	-2.0
Eritrea	0.0	0.0	0.0	0.0	0.0	-21.1	-0.2
Ethiopia	-0.2	-0.6	-11.5	3.1	3.4	3.3	-0.2
Kenya	-0.4	-0.3	0.0	0.0	0.0	1.8	-0.2
Madagascar	-0.2	-0.5	-0.7	-0.2	-0.1	-0.1	0.0
Malawi	-4.7	-3.4	-0.3	-0.3	22.2	-18.9	-1.0
Mali	-2.0	-3.6	-5.6	-6.2	-6.1	-5.8	-5.6
Mozambique	-0.5	-0.5	1.5	-5.8	-18.8	9.6	1.0
Nigeria	-0.2	-0.1	2.6	-1.7	-0.2	-0.2	-0.2
South Africa	2.0	2.0	0.6	1.2	0.3	0.8	-0.2
Tanzania	0.6	1.6	-0.3	0.4	0.6	4.3	-1.3
Uganda	1.2	-4.8	-2.6	-1.6	3.3	1.5	-0.6
Zambia	-0.2	1.2	0.2	1.6	0.9	-0.2	1.8
Afghanistan	0.0	0.0	-14.9	-43.1	-17.4	33.5	-3.3
Bangladesh	-0.1	-0.1	-0.1	-0.2	-0.2	-0.5	-0.5
China	0.3	-0.2	-0.1	0.0	-0.1	-0.2	-0.3
Indonesia	0.0	0.0	-0.1	-0.1	-0.5	-0.6	-0.9
Nepal	-0.2	-0.3	-0.9	-1.5	-1.4	-1.2	-1.1
OPT ¹	.	.	.	.	.	1.5	1.5
Pakistan	-0.2	-0.1	0.7	4.0	1.4	-4.2	-0.7
Sri Lanka	-0.5	-1.5	-4.7	-5.2	-0.4	-2.2	-1.8
Timor-Leste	0.0	0.0	-9.0	3.9	0.4	5.8	-48.2
Vietnam	0.0	0.0	-3.2	-1.0	-0.9	-0.7	-0.5

Source: United Nations (2003).

¹ Occupied Palestinian Territory² Net migration is the difference between immigration and emigration. See Table 19, note 2 for details on interpretation of these figures.

Table 21. Statistics on remittances to Norway's partner countries.

	Number of years with World Bank data on workers' remittances		Latest available IMF remittances data from the balance of payments (USD millions)					Year
			Compensation of employees	Workers' remittances	Migrants' transfers	Total ²		
	1965-2001	1992-2001						
Guatemala	14	10	20.8	1579.4	.	1600.2	2002	
Nicaragua	10	10	.	376.5	.	376.5	2001	
Angola	0	0	5.1	.	.	.	1996	
Eritrea	10	10	3.3	.	.	.	2000	
Ethiopia	3	3	.	33.0	.	33.0	2002	
Kenya	0	0	.	.	.	.	—
Madagascar	19	5	17.0	.	.	.	2002	
Malawi	0	0	.	0.8	.	0.8	2002	
Mali	27	10	6.1	82.1	.	88.2	2001	
Mozambique	1	1	0.8	41.0	.	41.8	2001	
Nigeria	23	8	.	1301.0	.	1301.0	1999	
South Africa	0	0	53.0	.	20.0	.	2002	
Tanzania	0	0	6.8	.	.	.	2002	
Uganda	2	0	.	365.0	.	365.0	2002	
Zambia	0	0	.	.	.	.	—
Afghanistan	0	0	.	.	.	.	—
Bangladesh	27	10	9.6	2847.7	.	2857.3	2002	
China	20	10	674.0	1697.0	.	2371.0	2002	
Indonesia	19	10	.	1259.0	.	1259.0	2002	
Nepal	27	10	.	147.0	.	147.0	2001	
OPT ¹	0	0	362.6	28.5	.	391.1	2001	
Pakistan	32	10	.	3554.0	.	3554.0	2002	
Sri Lanka	27	10	9.0	1287.1	13.0	1309.1	2002	
Timor-Leste	0	0	.	.	.	.	—
Vietnam	0	0	.	.	.	.	—

Source: World Bank (2003b) and International Monetary Fund (2003), author's calculations.

¹ Occupied Palestinian Territory.

² A total is not calculated without data for workers' remittances.

Table 22. Indicators of the importance of remittances in the economy of Norway's partner countries.

	Remittances 1992-2001, annual average ²			Remittances as a proportion of GDP, latest available figure			
	Proportion of GDP (%)	Proportion of exports (%)	Amount per capita (USD)	IMF data		World Bank data	
				%	Year	%	Year
Guatemala	2.4	12.7	36.5	6.9	2002	2.9	2001
Nicaragua	4.4	19.6	32.0	9.4	2001	9.7	1998
Angola	.	.	.	.		.
Eritrea	24.6	121.8	39.1	.		36.6	2001
Ethiopia	0.6	3.9	0.2	0.5	2002	0.8	2000
Kenya	.	.	.	.		.
Madagascar	0.3	1.6	0.8	.		0.2	1996
Malawi	.	.	.	0.0	2002	.	
Mali	3.9	18.2	9.8	3.4	2001	2.5	2001
Mozambique	3.2	5.0	0.6	1.2	2001	3.2	2001
Nigeria	3.2	7.8	8.6	3.7	1999	3.7	1999
South Africa	.	.	.	.		.
Tanzania	.	.	.	.		.
Uganda	.	.	.	6.3	2002	.	
Zambia	.	.	.	.		.
Afghanistan	.	.	.	.		.
Bangladesh	3.4	29.8	11.1	6.0	2002	4.0	2001
China	0.1	0.5	0.8	0.2	2002	0.1	2001
Indonesia	0.5	1.3	3.8	0.7	2002	0.7	2001
Nepal	3.6	14.5	7.9	2.6	2001	7.4	2001
OPT ¹	.	.	.	9.7	2001	.	
Pakistan	2.4	15.0	11.0	6.0	2002	1.9	2001
Sri Lanka	6.3	17.9	49.3	7.9	2002	7.1	2001
Timor-Leste	.	.	.	.		.
Vietnam	.	.	.	.		.

Source: World Bank (2003b) and International Monetary Fund (2003), author's calculations.

¹ Occupied Palestinian Territory

² World Bank data. See Table 21 for the number of years on which averages are based.

Table 23. Flows of official development assistance, official aid, foreign direct investment and workers' remittances to Norway's partner countries, 1992-2001.

	Average annual flows 1992-2001					
	Amounts (Current USD millions)			Index, ODA and aid = 100		
	ODA and OA ²	FDI ³	Remittances ⁴	ODA and OA ²	FDI ³	Remittances ⁴
Guatemala	231	205	388	100	89	168
Nicaragua	634	132	156	100	21	25
Angola	363	844		100	232	
Eritrea	159	27	148	100	17	93
Ethiopia	870	83	38 ⁵	100	10	4 ⁵
Kenya	594	22		100	4	
Madagascar	402	25	10	100	6	2
Malawi	455	35		100	8	
Mali	411	53	97	100	13	24
Mozambique	1040	149	116 ⁶	100	14	11 ⁶
Nigeria	207	1250	993	100	604	480
South Africa	421	2054		100	488	
Tanzania	1020	128		100	13	
Uganda	725	122		100	17	
Zambia	802	113		100	14	
Afghanistan	213					
Bangladesh	1305	91	1383	100	7	106
China	2579	35787	928	100	1388	36
Indonesia	1585	1018	750	100	64	47
Nepal	400	10	175	100	3	44
OPT ¹	546					
Pakistan	1036	520	1383	100	50	134
Sri Lanka	457	180	876	100	39	191
Timor-Leste	58					
Vietnam	1023	1596		100	156	

Source: World Bank (2003b), author's calculations.

¹ Occupied Palestinian Territory.

² Official development assistance and official aid.

³ Foreign direct investment, net inflows.

⁴ Workers' remittances.

⁵ Valid data only available for three years.

⁶ Valid data only available for one year.

Table 24. Immigrant population in Norway originating in Norway's partner countries and selected non-partner countries, 1 January 2004.

	<i>Immigrant population² in Norway</i>			<i>Immigrant population in Norway per million inhabitants in the country of origin</i>
	Total	First generation³	Second generation⁴	
Guatemala	111	100	11	9
Nicaragua	93	87	6	17
Angola	144	138	6	11
Eritrea	2191	1566	625	529
Ethiopia	2659	2264	395	38
Kenya	863	719	144	27
Madagascar	174	160	14	10
Malawi	33	33	0	3
Mali	24	18	6	2
Mozambique	86	82	4	5
Nigeria	669	508	161	5
South Africa	568	537	31	13
Tanzania	554	477	77	15
Uganda	647	578	69	25
Zambia	147	142	5	14
Afghanistan	4851	4496	355	203
Bangladesh	546	391	155	4
China	4801	4034	767	4
Indonesia	626	570	56	3
Nepal	247	230	17	10
OPT ¹	708	605	103	199
Pakistan	26286	14874	11412	171
Sri Lanka	11918	7949	3969	625
Timor-Leste	5	5	0	6
Vietnam	17414	11862	5552	214
<i>Selected non-partner countries</i>				
Croatia	2983	2532	451	675
Yugoslavia	11070	8840	2230	1051
Chile	6931	5594	1337	439
Cape Verde	329	261	68	710
Morocco	6566	4275	2291	215
Philippines	7374	6461	913	92

Source: Statistics Norway, author's calculations.

¹ Occupied Palestinian Territory² Persons with no parent or grandparents born in Norway.³ Foreign-born persons without parents or grandparents born in Norway.⁴ Persons born in Norway with two foreign-born parents.

Table 25. Flows of bilateral development cooperation, social security transfers and migrant remittances from Norway to Norway's partner countries and selected non-partner countries, 2003.

	Bilateral development cooperation ²		Social security transfers ⁵		Migrant remittances ⁶	
	Amount 2003 (NOK 1000)	Change since 2001-02 (%) ³	Amount 2003 (NOK 1000)	Change since 2001-02 (%) ³	Amount 2003 (NOK 1000)	Change since 2001-02 (%) ³
Guatemala	87 655	-3.1	658	47.0	.	.
Nicaragua	89 672	-12.1	774	13.0	.	.
Angola	171 514	2.6	.	.	.	.
Eritrea	152 528	105.6	.	.	.	.
Ethiopia	263 223	40.9	.	.	.	.
Kenya	72 685	142.3	963	25.3	.	.
Madagascar	43 585	4.4	.	.	.	.
Malawi	199 370	89.0	.	.	.	.
Mali	52 981	-9.7	.	.	.	.
Mozambique	383 059	27.2	.	.	.	.
Nigeria	31 500	83.4	.	.	.	.
South Africa	110 353	-24.5	6 048	11.6	.	.
Tanzania	476 955	38.9	425	23.8 ⁴	.	.
Uganda	271 647	24.1	.	.	.	.
Zambia	252 006	20.3	.	.	.	.
Afghanistan	486 868	15.5	.	.	.	.
Bangladesh	85 992	-45.9	.	.	.	.
China	46 489	3.5	745	168.1 ⁴	.	.
Indonesia	84 548	-8.2	1 060	26.8	.	.
Nepal	143 135	37.6	.	.	.	.
OPT ¹	379 007	1.9	.	.	.	.
Pakistan	70 490	7.1	13 574	27.8	58 596	11.3
Sri Lanka	202 119	31.2	669	93.7 ⁴	.	.
Timor-Leste	50 234	-3.2	.	.	.	.
Vietnam	81 654	42.5	.	.	.	.
<i>Selected non-partner countries</i>					.	.
Croatia	100 650	-24.8	3 634	45.9	.	.
Yugoslavia	310 027	24.5	3 618	18.7	.	.
Chile	4 512	-14.6	7 870	27.0	.	.
Cape Verde	531	-46.5	1 413	23.2	6 242 ⁷	28.9
Morocco	2 532	134.2	16 314	26.9	45 049	-0.7
Philippines	13 232	15.8	23 893	30.1	86 526 ⁸	68.0

Source: Calculations based on data from Norad, the Norwegian National Insurance Administration (Trygdeetaten), State Bank of Pakistan, Banco de Cabo Verde, Office des Changes du Maroc, and Bangko Sentral ng Pilipinas.

¹ Occupied Palestinian Territory.

² Total grants from Norad and the Ministry of Foreign Affairs.

³ Change compared to the average of 2001 and 2002.

⁴ Change since 2002. Data for 2001 are unavailable.

⁵ Transfers of Norwegian national insurance benefits to residents abroad. The recipients include Norwegian emigrants as well as migrants who have returned to their countries of origin after living in Norway.

⁶ Based on data from the national banks of the respective countries

⁷ Amount for 2001, change since 1999-2000.

⁸ Amount for 2001, change since 1999-2000.

⁸ Remittances from sea-based workers registered in Norwegian account for an additional NOK 12.1 million, a figure that has declined by 41.9 per cent since 2001-02.

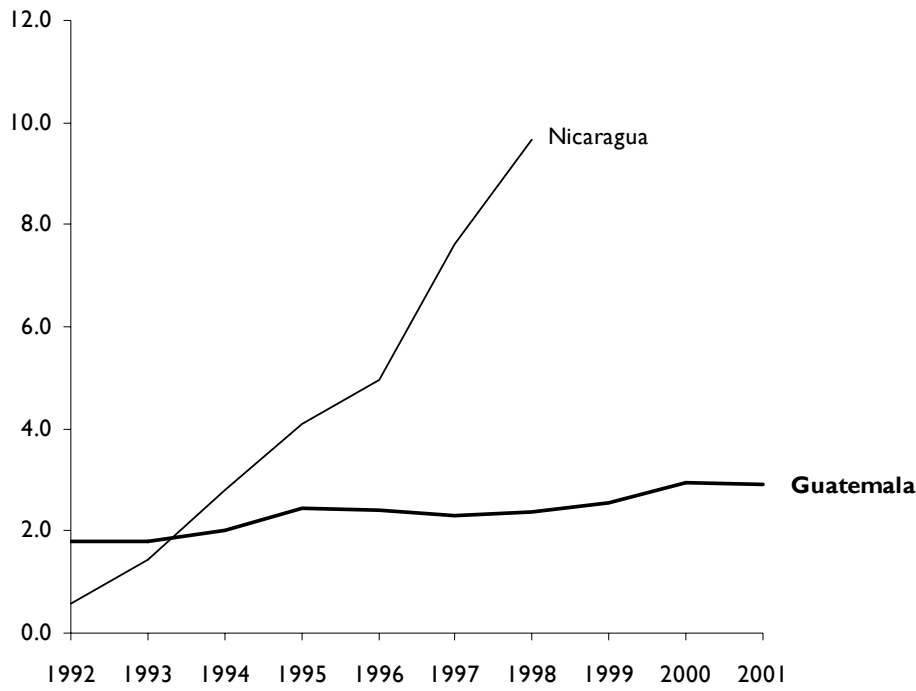


Figure 10. Remittances to partner countries in Latin America 1992-2001 as a proportion of gross domestic product (per cent).

Source: World Bank (2003b). Only includes 'workers' remittances' in the balance of payments statistics.

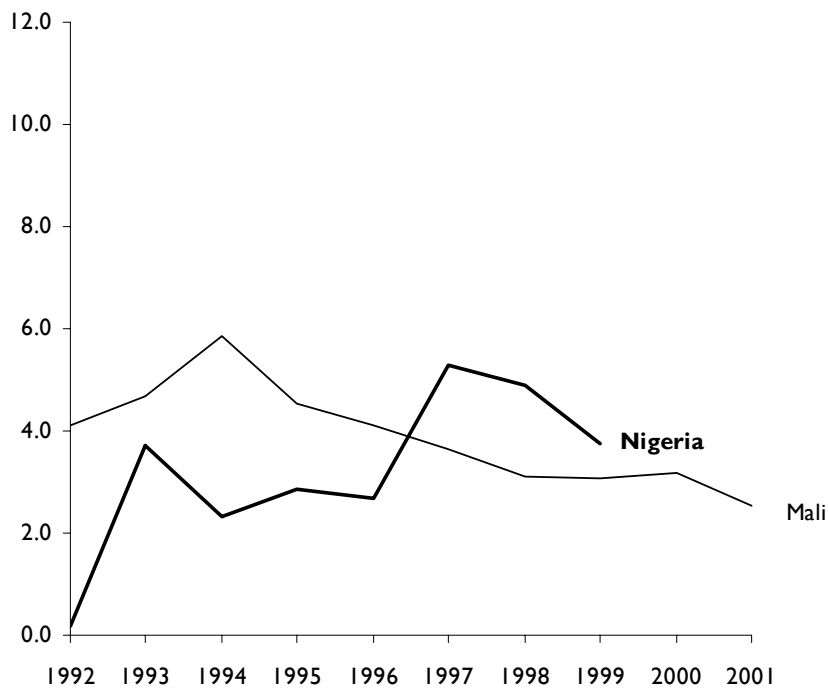


Figure 11. Remittances to selected partner countries in Africa 1992-2001 as a proportion of gross domestic product (per cent).

Source: World Bank (2003b). Only includes 'workers' remittances' in the balance of payments statistics.

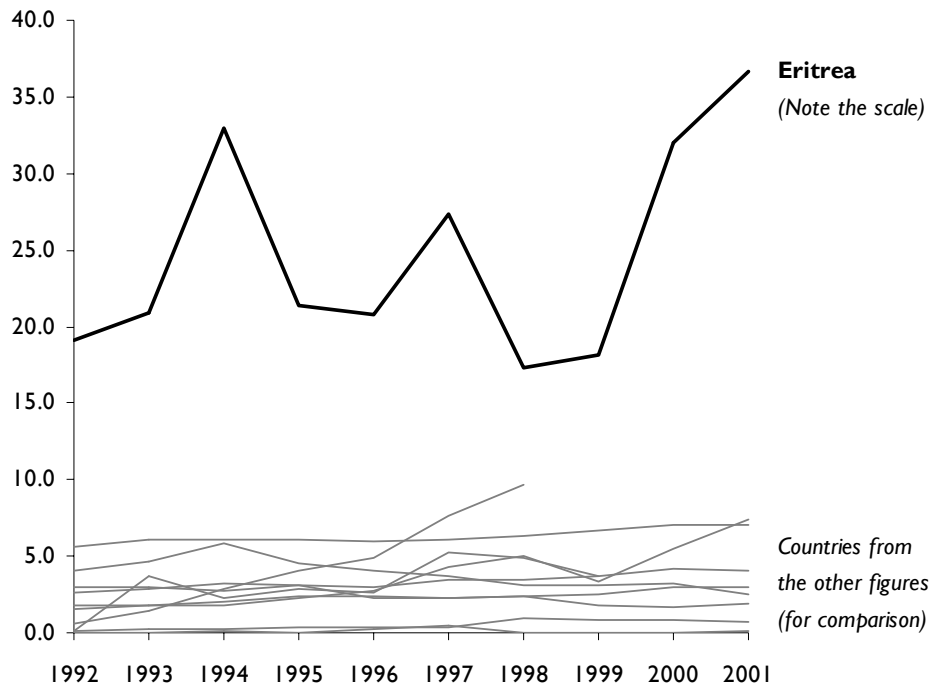


Figure 12. Remittances to Eritrea 1992-2001 as a proportion of gross domestic product (per cent).

Source: World Bank (2003b). Only includes 'workers' remittances' in the balance of payments statistics.

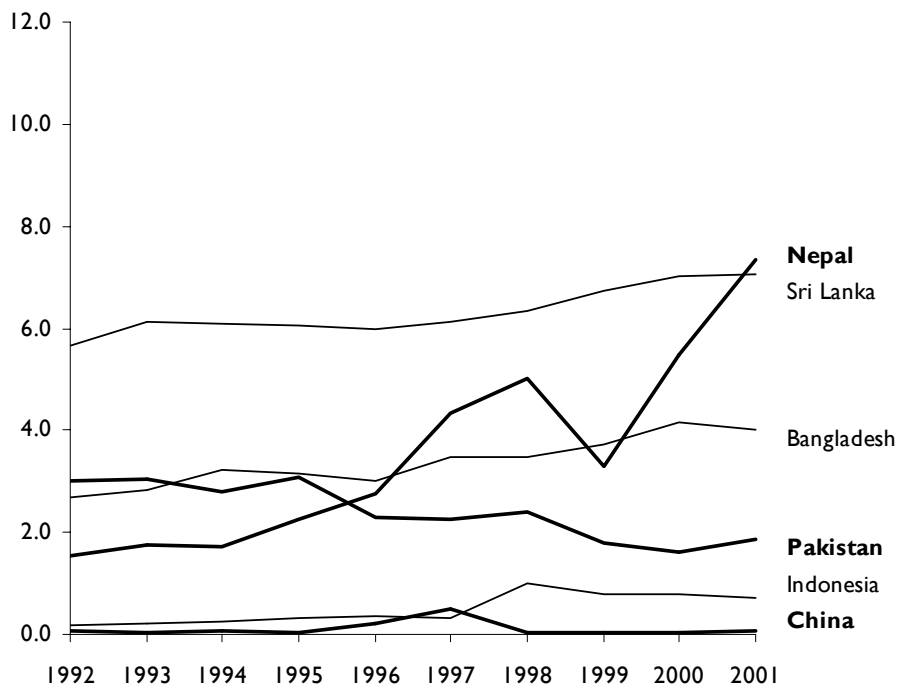


Figure 13. Remittances to selected partner countries in Asia 1992-2001 as a proportion of gross domestic product (per cent).

Source: World Bank (2003b). Only includes 'workers' remittances' in the balance of payments statistics.

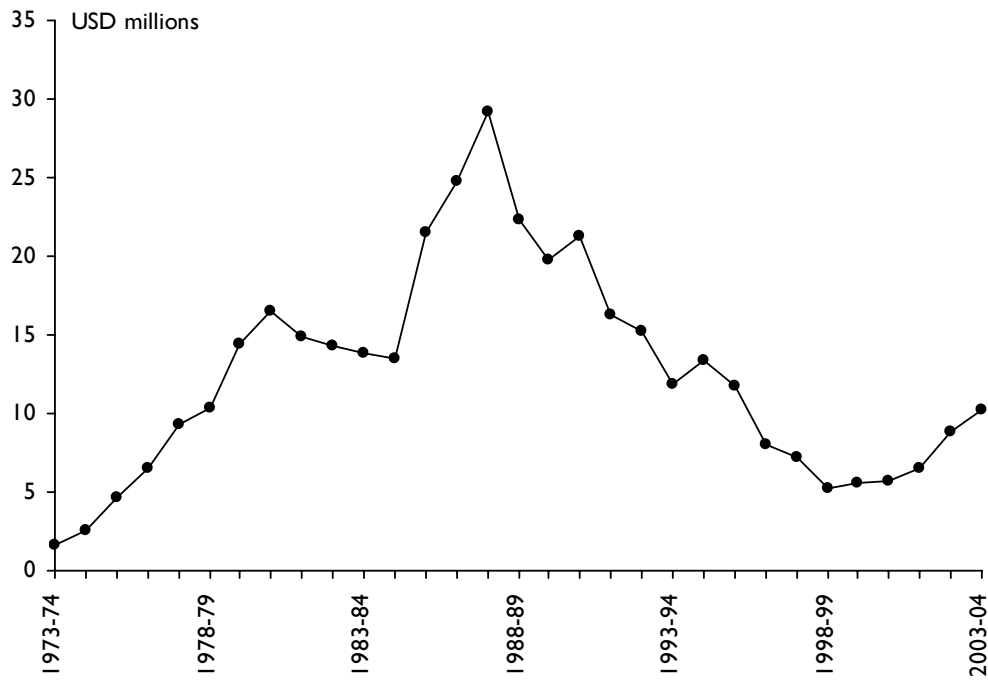


Figure 14. Remittances from Norway to Pakistan 1973-74–2003-04 (fiscal years). USD millions.

Source: State Bank of Pakistan

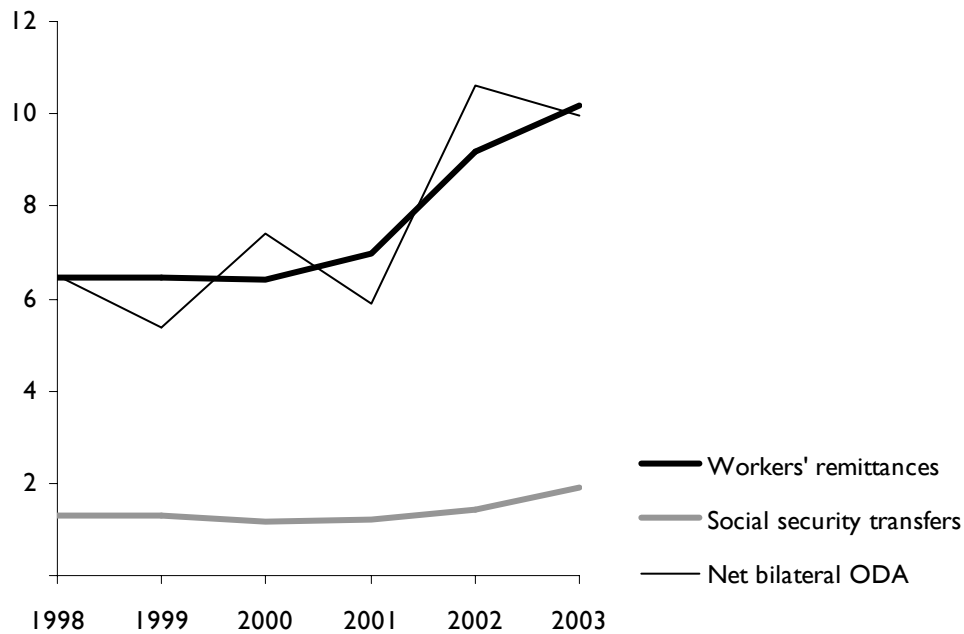


Figure 15. Value of selected financial flows from Norway to Pakistan 1998-2003, USD million.¹

Source: State Bank of Pakistan,

¹ Inflation adjusted with reference to Pakistan's consumer price index. For instance, the nominal value of remittances in 1998 was 5.3 million dollars, but adjusting for inflation, this corresponds to 6.3 million dollars in 2003.

8 Policy recommendations for the MFA and Norad

How can the Ministry of Foreign Affairs (MFA) and Norad best contribute to increasing the benefits of remittances to poor countries? In light of the analysis of previous chapters, this final chapter proposes some answers to this question.

8.1 Political choices and challenges

Before considering specific policy measures and proposals, it is necessary to highlight some fundamental political choices and challenges regarding the MFA and Norad's involvement in remittances. These arise from the analysis of remittance dynamics, and from the experience of other countries.

8.1.1 *Should resources for development cooperation be used to provide additional advantages for groups that are already privileged?*

Migrants are rarely recruited among the poorest of the poor, and remittance-receiving households are often better off than families without relatives abroad. However, it is especially when migrants and their families have met their subsistence needs and have money to spare that policy interventions can play a role in channelling remittances into productive investment. This is a special case of the more general dilemma of balancing support to poverty alleviation with support to broader self-sustained development.

8.1.2 *Should the MFA and/or Norad play a more active role in relation to the immigrant population in Norway and their ties with their countries of origin?*

If the Norwegian government wishes to increase the benefits of remittances to developing countries, there is much to be done within Norway. Among Norway's partner countries, there are three large immigrant communities in Norway (from Pakistan, Vietnam and Sri Lanka) as well as four medium-sized groups (from Afghanistan, China, Ethiopia and Eritrea). Many of these groups have considerable interaction with their countries of origin, and the development effects of this interaction—including remittances flows—could probably be enhanced. Migration and remittances are also of great importance to some of the countries that have received large amount of bilateral aid from Norway, but are not among Norway's partner countries. These include The Federal Republic of Yugoslavia, Bosnia-Herzegovina, Croatia, Somalia,

8.1.3 *How far should Norwegian authorities go in promoting remittances out of Norway to developing countries?*

Remittances out of Norway are a loss to the Norwegian economy. When they are sent by immigrant households who barely cover their daily expenses in Norway, this raises additional concerns. While it is necessary to maintain that immigrants are free to spend their legally acquired private funds in whichever way they wish, actively promoting transfers to family members abroad could be politically sensitive. A legitimate and desirable aim for policy interventions, however, is to promote legal, reasonable and reliable transfer mechanisms. A reduction of transfer costs will automatically increase the proportion of money given up by immigrants that reach recipients in developing countries, and it *could* have the additional effect of increasing transfers.

8.1.4 *When should remittance independence be the goal?*

Taking the view of David Ellerman presented in section 4.2 above, development is synonymous with an end to the reliance on migration and remittances. Is this compatible with a policy of securing future remittances? To say that it is not, would be to make the best the enemy of the good. While independence from remittance income sounds desirable, this cannot be detached from the nature of alternative development models, which could involve different forms of, but not necessarily less dependence. Still, a policy of actively promoting emigration and remittances could be controversial.

8.2 Target countries

Countries with a high intensity of emigration offer more opportunities for increasing the benefits of remittances. This is because the fixed costs of investing in new policy areas are likely to have higher returns, and because it is easier to elaborate policy measures that use implicit targeting of migrants in a successful way (cf section 5.2).

As mentioned in previous chapters, remittances can have an important role to play in post-conflict reconstruction. However, engagement with remittances in such contexts poses additional challenges. The insights and policy implications emanating from this report may well be integrated in peace-building policies, but this will require special attention to political processes that fall outside the scope of this study.

Given the potential for intervention at both sending and receiving ends of remittance flows, it could be recommendable to engage with remittances to partner countries that are represented with substantial immigrant groups in Norway. Much of the recent interest in remittances by other European development cooperation agencies has been linked with immigration and cooperation with immigrant communities.

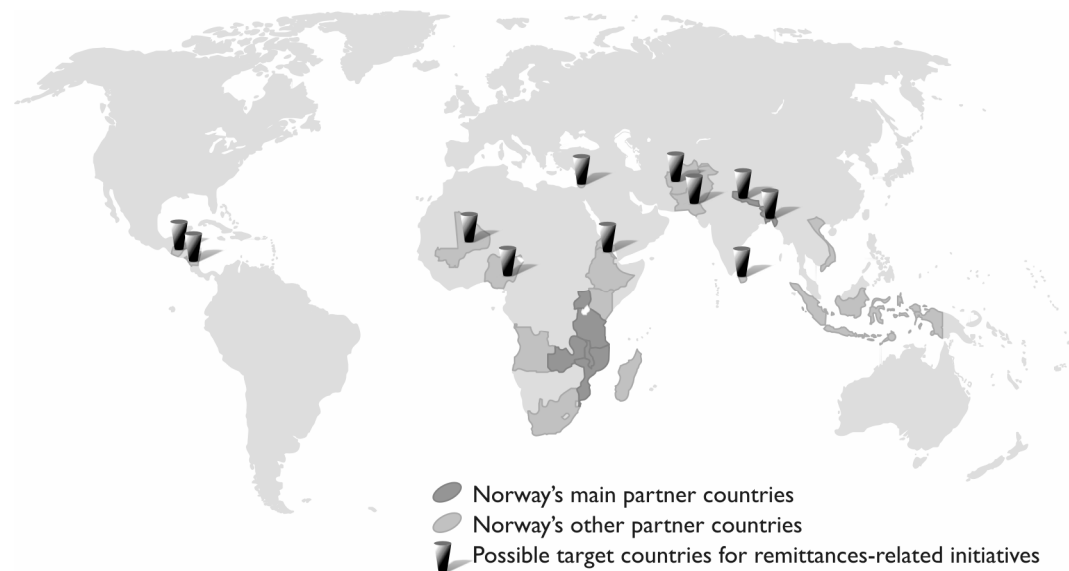


Figure 16. Possible target countries for remittances-related initiatives.

Pakistan is the only country that fulfils the criteria of A) being a partner country, B) having a large immigrant community in Norway, C) having a large inflow of remittances in relation to the size of the economy and D) not having remittances implicated in armed conflict or a politically complex reconstruction process. These are good reasons for using Pakistan as a test case for developing models for engagement with remittances.

In addition, the following ten partner countries have a level of remittance inflows that make them suitable for policy intervention in the field of remittances: Guatemala, Nicaragua, Eritrea, Mali, Nigeria, Afghanistan, Bangladesh, Nepal, Occupied Palestinian Territory, and Sri Lanka (see Table 17 and Figure 16).

The policy implications discussed below are organized by cooperation partners: other Norwegian government agencies, civil society, the private sector, and partner country governments.

8.3 The MFA and other Norwegian government agencies

Recognizing that there is considerable potential for intervention within Norwegian society, the first policy implications to be discussed are actions vis-à-vis or in cooperation with other government agencies in Norway.

8.3.1 Be attentive to the effects of policy in other areas on immigrant's opportunities for sending remittances and/or doing business in their countries of origin

The MFA could play a role in ensuring that policies formulated by other ministries do not have undesired effects on immigrants' opportunities for contributing to the development of their countries of origin. This is potentially impor-

tant in inter-ministerial consultations (*departementshøringer*) originating in the Ministry of Local Government and Regional Development, the Ministry of Finance, the Ministry of Justice and the Police, and the Ministry of Trade and Industry. For instance, initiatives from the Ministry of Finance or the Ministry of Justice and the Police concerning money laundering could have consequences for remittance flows that are easily overseen or overshadowed by the principal objectives of the initiatives.

8.3.2 *Work with other agencies to promote transnational entrepreneurship among immigrants in Norway*

The MFA could work with the Ministry of Local Government and Regional Development (KRD) and the Integration Department of the Norwegian Directorate of Immigration (UDI) to promote transnational entrepreneurship among immigrants. Transnational entrepreneurship is business development that capitalizes on immigrants' bicultural competence and networks both in Norway and in their countries of origin. The Ministry of Local Government and Regional Development has recently initiated a trial programme for stimulating entrepreneurship among immigrants, and Norad has a history of promoting partnership between business interests in Norway and partner countries.¹⁴⁰ According to the MFA, the primary bottleneck for foreign investment in the South is often not the availability of investment opportunities, but the willingness of foreign investors to engage in what appears to be high-risk projects compared to the expected yield. The consequent conclusion is that Norwegian development cooperation can contribute through assistance to improving the investment climate and motivating foreign investors, including the Norwegian private sector.¹⁴¹ Working with Norwegian entrepreneurs of immigrant origin could present different challenges and opportunities. This group could potentially have much to offer in terms of small business development. The MFA's relationship with authorities in migrants' countries of origin that are also partner countries in development cooperation can be a valuable asset in this process. Experience from the Netherlands, where the government has supported migrants' investment in development projects in their countries of origin shows that the local bureaucracy is often a principal bottleneck. Such experiences can contribute to, and benefit from development cooperation that seeks to improve the local investment climate by streamlining bureaucracies.

8.3.3 *Work with other government agencies to create opportunities for reasonable and reliable transfer mechanisms to poor countries*

The MFA could play a more active role vis-à-vis other government agencies in Norway to improve the opportunities for immigrants from developing coun-

¹⁴⁰ Kommunal- og regionaldepartementet 2004.

¹⁴¹ Utenriksdepartementet 1999.

tries to remit money in reasonable, reliable and legal ways to their countries of origin. Immigrants in Norway have a very limited choice of remittance transfer mechanisms, and prices are markedly higher than in many other countries.¹⁴² In the British House of Commons' recent deliberations on migration and development, Dr Saad Shire, managing director of Dahabshiil Transfer Services, said in his testimony to the committee that the discrepancies in regulations between European countries was a problem for remittance service providers, and that Norway was an extreme case: 'You have a spectrum where, like in the United Kingdom, all you have to do is register, and in Norway, [...] you have to be a bank to be able to remit any money.'¹⁴³ Indeed, Dahabshiil's request to establish remittance services from Norway to Somalia has been rejected by Norwegian authorities. In the United Kingdom, the Department for International Development (DFID) has played an active role to ensure that remittance flows to Somalia and other poor countries are not unduly affected by measures to prevent money laundering and financing of terrorism.

Norway is not a development-friendly country in terms of the environment for outward remittances, and the MFA could have an important role to play. The MFA could work with the Financial Supervisory Authority of Norway (Kredittilsynet), the Norwegian Competition Authority (Konkurransetilsynet) and the Consumer Ombudsman (Forbrukerombudet) to find measures for increasing competition and lowering prices in the money transfer market. The World Bank and IMF guidelines discussed in section 3.4 (page 27) can be useful in this context: how can existing hawala networks be regulated, and how can inefficiencies in the formal sector be corrected in order to make informal channels less attractive?

8.3.4 *Work with the Ministry of Finance to promote tax exemption for gifts to charitable organizations in developing countries*

The MFA could aim to reduce Norwegian taxation on remittances by promoting tax exemption for gifts to charitable organizations in developing countries. Today, immigrants who send remittances to support development projects run by local organizations in their countries of origin pay income tax on their gifts. By contrast, gifts of up to NOK 6000 to most Norwegian development organizations are rewarded by exemption from taxation. The current legislation limits this to organizations based in Norway.¹⁴⁴ Perhaps the most feasible way forward would be to explore the possibility for tax-exempt transfers to local organizations through Norway-based intermediaries.

¹⁴² Carling 2004b.

¹⁴³ House of Commons 2004b: Question 236.

¹⁴⁴ Lov om skatt av formue og inntekt (skatteloven) § 6-50.

8.4 The MFA, Norad and civil society

Interventions relating to immigrants in Norway should not only include other government agencies, but also the migrant communities themselves.

8.4.1 *Work with immigrant communities in Norway to promote reasonable, reliable and development-friendly transfer mechanisms to developing countries*

The MFA and/or Norad could work with immigrant communities in Norway to enhance the opportunities for transferring money to partner countries through legal, inexpensive channels that have a development-friendly profile. There is potential for working with these communities to A) identify potentials for new transfer mechanisms and B) increase consumer awareness to enhance competition between existing market actors.

8.4.2 *Work with immigrant communities to facilitate transnational entrepreneurship uniting Norway and Norway's partner countries.*

The MFA and/or Norad could work with immigrant communities from Norway's partner countries to facilitate transnational entrepreneurship. This would be especially appropriate with the Pakistani and Vietnamese communities. The preferable approach would be to consult with existing transnational business owners to identify potentials and bottlenecks in Norway and in the immigrants' countries of origin.

8.4.3 *Work with immigrant association and other NGOs with immigrant membership to promote development initiatives in migrants' countries of origin.*

The MFA and/or Norad could facilitate stronger immigrant involvement in development cooperation through Norway-based NGOs. While Latin American hometown associations in the United States are clearly the most prominent examples of communal remittances to development projects, there are also many instances of development initiatives by immigrant organizations in Europe—and of the involvement of development agencies in the promotion and support of these initiatives. The Dutch contest on development projects for migrant organizations is a case in point (see Box 11).

Some of the immigrant communities in Norway have extensive contacts with co-ethnics in other European countries, such as Pakistanis in the United Kingdom. In some cases, it can be useful to build on such connections between European countries when facilitating or supporting initiatives in the country of origin.¹⁴⁵

¹⁴⁵ Van Hear, Pieke and Vertovec 2004.

8.5 The MFA, Norad and the private sector

8.5.1 *Work with Norwegian financial institutions in Norway to promote reasonable, reliable and development-friendly transfer mechanisms to developing countries*

The MFA and/or Norad could work with financial institutions in Norway to improve migrant's opportunities for remitting money to their countries of origin in ways that are reasonable, regulated and reliable, and contribute to the development of receiving countries. Inexpensive account-to-account transfer mechanisms which utilize remittances to enhance credit availability to small-scale entrepreneurs have often been founded on bilateral cooperation between institutions in the countries of origin and destination, e.g. an MFI and a commercial bank. The MFA and/or Norad could facilitate the establishment of such partnerships through outreach to the private sector in Norway. It would also be possible to work with the Norwegian Financial Services Association (Finansnæringens hovedorganisasjon) and the Norwegian Savings Banks Association (Sparebankforeningen) to achieve these aims.

8.5.2 *Work with microfinance institutions in partner countries to promote linkages between remittances and microfinance.*

The MFA and/or Norad could work with microfinance institutions in partner countries to explore possibilities for offering remittance services in order to strengthen financial sustainability, recruit remittance receivers as members, and contribute to the sound management of remittances funds (see section 6.3.3)

8.6 The MFA, Norad and partner country governments

8.6.1 *Assist partner country governments in formulating and implementing sound policies to increase the benefits of remittances*

The MFA and/or Norad could work with partner country governments to improve the formulation and implementation of policies to increase the benefits of remittances. This would include many of the policy measures discussed in section 6 of this report. The following deserve special mention:

- Elaborating financial incentive schemes
- Stimulating the provision of remittance services by MFIs
- Promoting financial literacy
- Reducing the proportion of unbanked households
- Matching communal remittances with government funds
- Reviewing financial policy and regulations to promote investment by migrants
- Improving the investment climate for SMEs
- Elaborating strategies for long-term diaspora management

8.7 The MFA, Norad and other international development agencies

8.7.1 Promote the exchange of ideas and experiences of engagement with remittances and diasporas among international development agencies in Europe

The MFA and/or Norad could promote greater efficiency and success in engagement with remittances and immigrant communities through facilitating dialogue between international development agencies in Europe. This is a challenging area where agencies in several countries have recently become involved. While European countries differ greatly in terms of the size, composition and characteristics of their immigrant populations, there is clearly a potential for learning from each other.

8.8 The MFA, Norad and multilateral agencies

8.8.1 Support the ongoing work on migration, remittances and development by multilateral agencies and international organizations

The MFA and/or Norad could support current remittances-related work by the International Organization for Migration, the World Bank, the Inter-American Development Bank, the Asian Development Bank, the Global Commission on International Migration, the International Labour Organization and other agencies.

8.8.2 Cooperate with multilateral agencies and international organizations on specific remittances-related initiatives in partner countries.

The MFA and/or Norad could initiate remittances-related activities in partner countries in cooperation with multilateral agencies and international organizations that might already be involved in this area. For instance, initiatives seeking to enhance the capacity of Eritreans in Norway to contribute to development in Eritrea could be explored within the framework of IOM's MIDA programme (Box 12).

9 Possible extensions and further research

This report has presented a basis for making decisions on whether, how, and where to proceed with initiatives in the field of remittances. Additional applied research is needed in two areas:

- The technicalities relating to the implementation of specific policy measures (e.g. the design of financial incentive programmes, the elaboration of communication strategies for diaspora relations, or the legal constraints to increasing competition on the remittances transfer market).
- The specific conditions in countries where policy measures are to be implemented.

Glossary

Asylum seeker — An international migrant who has claimed refugee status, but whose status has yet to be determined (see *refugee*).

Automatic teller machine (ATM) — Cash-dispensing machine operated by means of a credit or debit card. ATMs are increasingly used to dispense remittances. *Debit cards* or *smart cards* are used for this purpose.

Balance of payments (BOP) — A statistical statement that systematically summarizes the economic transactions of an economy with the rest of the world during a specific time period, usually one year. The International Monetary Fund works to standardize the format of BOP statistics worldwide, and collects and publishes these statistics in annual yearbooks.

Compensation of employees — The entry in the balance of payments that covers residents' wages, salaries, and other benefits (in cash or in kind) earned in other countries for work performed for and paid by residents of those other countries. Migrants who (are expected to) spend less than a year abroad are considered residents of the country of origin, and their transfers are considered compensation of employees rather than *workers' remittances*. Compensation of employees is recorded under 'income' in the current account of the balance of payments.

Credit Union — A non-profit financial institution accepting deposits and making loans. Credit unions are owned by their members as a cooperative. Some credit unions have started offering remittance services to their members.

Debit card — A card for use in automatic teller machines or point of sale terminals, drawing upon the deposits in a

specific bank account. Debit cards are increasingly used for remittance transfers.

Diaspora — A population that is dispersed from a country of origin to two or more locations elsewhere over a long period of time, and that engages in transnational practices with the country of origin. Note that the term 'diaspora' is used in a variety of ways, either more loosely or more restrictively than here.

Financial literacy — The ability to effectively evaluate and manage one's finances in order to make prudent decisions toward reaching life goals and achieve financial well-being. In some cases, financial literacy is used more narrowly to mean being able to read and understand fundamental financial statements

Hawala — An *Informal Value Transfer System* (IVTS) common in parts of South and South-western Asia. The term is sometimes used to denote IVTS more generally. *Hawala* comes from Arabic and is often translated as 'change' or 'transform'.

Hometown association (HTA) — An association of migrants (or their descendants) from a specific area of origin, often one that makes collective transfers for development projects in their community of origin. HTAs are especially common among Latino immigrants in the United States and have been growing rapidly in number during the past decade.

Hundi — An *Informal Value Transfer System* (IVTS) common in parts of South Asia. *Hundi* means 'bill of exchange' or 'promissory note' and has its origins in the Sanskrit word meaning 'to collect'.

Informal Value Transfer System (IVTS) — A mechanism for transferring out-

side the conventional, regulated financial institutional systems. IVTS are characterized by trust, a relative absence of written records, and a reliance on international ethnic networks. In most cases, there is no physical movement of money involved.

International migrant — A person who has moved outside their country of birth. In this report, which does not address internal migration, *migrant* is sometimes used as shorthand for *international migrant*.

Microfinance — In the original sense, microfinance is the provision of very small loans (microcredit) to poor people to help them engage in productive activities or establish small businesses. Today, microfinance has come to include a broader range of services, including credit, savings and insurance.

Microfinance Institution (MFI) — An organization that offers microfinance services to low-income populations. A wide range of nongovernmental organizations (NGOs), credit unions, cooperatives, private commercial banks and non-bank financial institutions. MFIs differ in their emphasis on the three main objectives of microfinance: a broad and poverty-oriented outreach, financial sustainability, and impact on economic growth and/or poverty alleviation.

Migrants' transfers — The entry in the balance of payments that covers goods and financial assets accompanying migrants as they change residence from one country to another. Migrants' transfers are recorded under 'capital transfers' in the capital account of the balance of payments.

Money laundering — The process by which criminals either hide money that comes from illegal activity or changes this wealth into what appears illicit. Money laundering often involves international financial transactions, and government measures to combat money laundering have implications for informal value transfer systems that migrants use to send remittances.

Money Transfer Operator (MTO) — An institution that offer international money transfer services, usually on a cash-to-cash basis. The term MTO is often restricted to non-bank financial

institutions (NBFIs). The leading MTOs at the global level are Western Union and MoneyGram.

Non-Bank Financial Institution (NBFI) — An institution that offers certain financial services (e.g. money transmission and currency exchange), without qualifying as a bank. NBFIs are normally authorized to engage in banking activities 'not involving the receipt of money on any current account subject to withdrawal by cheque'.

Non-migrant — A person who lives within their country of birth. Usually used to denote relatives of migrants or others who live in areas of emigration.

Refugee — An international migrant who has fled his/her country of origin because of a well-founded fear of persecution, and who has been granted refugee status by a receiving state according to the United Nations 1951 Convention on refugees. This differs from the common use of the term refugee without reference to legal status.

Remittances — Transfers of value by emigrants or their descendants to their country of origin. This report uses a broad definition of remittances that encompasses social security transfers to return migrants and other migration-related transfers that differ from the popular conception of remittances as money sent by migrant workers to their families at home. Official remittances are often calculated as the sum of *compensation of employees*, *workers' remittances*, and *migrants' transfers* in the balance of payments.

Return migrant — A person who has been an international migrant and has moved back to his or her country of origin.

Smart card — A stored value debit card that can be used at ATMs or POS terminals linked to one of the major international card networks. Users of smart cards are not required to have a bank account. Smart cards are an increasingly important mechanism for remittance transfers in some parts of the world.

Transnational practices — Social, economic, political or cultural actions, flows and exchanges between international migrants and non-migrants in their country of origin, or between in-

ternational migrants in different countries. The sending of remittances is an important transnational practice.

Transnationalism — The process by which migrants forge and sustain social relations that link together their societies of origin and settlement. The term has often been criticized for its vagueness, and many researchers prefer to refer to specific *transnational practices*.

Unbanked population — People who do not have a banking relationship with a traditional financial institution, such as a commercial bank, a savings association, or a credit union. About one in ten household in the United States are believed to be unbanked. Among immigrants, the proportion is several times higher.

Workers' remittances — The entry in the balance of payments that covers current transfers by migrants who are employed abroad and considered residents there, defined as being expected

to stay for a year or more. Current transfers are all transfers that are not transfers of capital. Workers' remittances are recorded under 'current transfers' in the current account of the balance of payments. This is a narrow and technical definition of remittances that differs from the broader analytical concept (see *remittances*). Note that the terms 'workers' remittances' refers to a classification of transfers, and does not mean that the senders are necessarily 'workers' as opposed to other categories of emigrants.

Xawilaad — An *Informal Value Transfer System* (IVTS) used by Somali migrants to transfer money to Somalia and Somali communities in neighbouring countries. The root *xawil* is a Somali word derived from Arabic, meaning 'transfer'. *Xawilaad* is sometimes spelled *hawilaad*.

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