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REMITTANCES TO LEAST DEVELOPED COUNTRIES (LDCs)

ISSUES, POLICIES, PRACTICES AND ENHANCING DEVELOPMENT IMPACT

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1. Introduction

1.1 Definition of Remittances

Three streams of monetary transfers flowing into countries are included in remittances and published annually by the IMF in its Balance of Payments Statistics Yearbook. These are workers remittances, compensation of employees and migrant transfers. However the term “remittances” has come to include more than the above in the eyes of a number States, institutions and experts. For IOM’s purposes, migrant remittances are defined broadly as the monetary transfers that a migrant makes to the country of origin. In other words, financial flows associated with migration. Most of the time, remittances are personal, cash transfers from a migrant worker or immigrant to a relative in the country of origin. They can also be funds invested, deposited or donated by the migrant to the country of origin. The definition could possibly be altered to include in-kind personal transfers and donations. Some scholars go further to include transfers of skills and technology as well as “social remittances.” The scope of this paper is limited to monetary transfers.

1.2. Scale and Importance

International remittances received by developing countries are estimated to be around USD 167 billion in 2005 and have doubled in the last five years.¹ Migrant remittances constitute an important source of foreign exchange, enabling countries to acquire vital imports or pay off external debts. Remittances also play an important role in reducing poverty.² There is growing awareness of the potential that remittances have to contribute to economic development in migrant-sending countries at the local, regional and national levels.

A USAID study on remittances in Armenia summarizes the view on the economic impact of migrant remittances³:

Consensus views on the impact of migration and remittances on the sending countries have been subject to cycles of pessimism and optimism. In the early 1990s, for example, the general pessimistic view was that remittances do not promote growth but “exacerbate the dependency of sending communities by raising material expectations without providing a means of satisfying them, other than more migration. Individual families attain higher standards of living, but communities achieve little autonomous growth.” Some analysts went so far as to advise governments and donors to discourage migration and remittances. There has been a sea change in recent years in the consensus view, and currently there is a great deal of excitement about the potential of remittance inflows to support growth and development. This is due partly to the fact that remittance flows to developing and transition countries have become so large, and partly because the theoretical understanding of remittances has changed.

¹ World Bank, Global Economic Prospects, Economic Implications of Remittances and Migration, 2006, Washington D.C.

² Ibid

³ Roberts, Bryan. Remittances in Armenia: Size, Impacts, and Measures to Enhance their Contribution to Development, USAID, Yerevan, 2004.

Contemporary views on the economic benefits and costs of remittances to a receiving country can be summarized as:⁴

Table 1

Potential Benefits	Potential Costs
Are a stable source of foreign exchange that ease foreign exchange constraints and help finance external deficits	Ease pressure on governments to implement reforms and reduce external imbalances (moral hazard)
Are potential source of savings and investment for capital formation and development	Reduce savings of recipient families and thus negatively impact growth and development (moral hazard)
Facilitate investment in children's education and human capital formation	Reduce labor effort of recipient families and thus negatively impact growth and development (moral hazard)
Raise the standard of living of recipients	Migration leads to "brain drain" and negative impacts on economy that are not fully compensated by remittance transfers
Reduce income inequality	Increase income inequality
Reduce poverty	

As Roberts (2004) mentions, in recent years a view has emerged that migration and remittances are outcomes of the decisions of families that are behaving optimally given the opportunities and constraints that they face. Simplistic views that remittances lead to "excessive" consumption, import dependency, or "unproductive" investment in housing and land are no longer tenable. The potential costs of remittances are now viewed as largely deriving from moral hazard problems. Remittances could ease pressure on governments faced with large external deficits to engage in difficult structural reforms. They also could negatively impact labour effort and savings and investment of recipient households, even if the remittance sender wants the family to work hard or save and invest.

The importance of migrants' remittances as source of development finance is now widely recognized in various fora, including in June 2004 at the G-8 Summit at Sea Island, Georgia, United States.

Remittances are an important financial inflow in many LDCs. Bangladesh is ranked in the top 20 remittance- recipient countries and Haiti, Kiribati, Lesotho, Nepal and Yemen are in the top 20 as share of GDP. For many others also, remittances constitute one of the main sources of external finance. (In some LDCs, remittances are also a significant outflow).

Table 2 Remittances to LDCs

Remittances in 2003 (Millions of US Dollars)

Country (year if not in 2003)	Inflow	Outflow	Net
Angola (2002)	0	223	-223
Bangladesh	3192	6	3186
Benin (2001)	83	10	73
Burkina Faso (2001)	50	44	6
Burundi	3	0	3

⁴ Ibid.

Cambodia	128	83	45
Cape Verde	92	1	91
Democratic Republic of the Congo	0	3	-3
Eritrea (2000)	3	1	2
Ethiopia	46	18	28
Guinea	111	46	65
Guinea-Bissau (2002)	17	5	12
Haiti	811	0	811
Lao People's Democratic Republic (2001)	0	1	-1
Lesotho (2002)	184	21	163
Madagascar	16	8	8
Malawi (2002)	1	0	1
Maldives	3	55	-52
Mali (2002)	137	30	107
Mauritania (1998)	2	10	-8
Mozambique	70	29	41
Myanmar	78	22	56
Nepal	785	26	759
Rwanda (2002)	7	32	-25
Samoa (1999)	45	3	42
Sao Tome and Principe (2002)	1	0	1
Senegal (2002)	297	39	258
Sierra Leone	26	3	23
Solomon Islands (1999)	2	6	-4
Sudan	1223	1	1222
Togo (2002)	104	17	87
Uganda	295	264	31
United Republic of Tanzania (2002)	7	21	-14
Vanuatu	4	3	1
Yemen	1270	60	1210
Zambia (2000)	0	24	-24

Source: IMF Balance of Payments Statistics
Remittances defined as workers remittances and compensation of employees

1.3. Migration

Remittances are an outcome of migration and are the most direct link between migration and development. Over the last 35 years, the number of persons living outside their country of birth has more than doubled, and comes today to over 175 million people.⁵ Worldwide, one in every 35 persons is a migrant. This trend, of increasing international migration and migrants in absolute terms, can be expected to continue in the coming decades. Nevertheless, it should be borne in mind that during the same period the world's population also grew two-fold and proportion of migrants in the total population remains about 3%. Estimates put the number of migrant workers at a just over 80 million and although there has been an increase, in 1998 migrant workers represented no more than 4.2% of the industrialized countries' total work-force.⁶

⁵ IOM, *World Migration 2003: Challenges and Responses for People on the Move*, World Migration Report Series Vol.2, Geneva.

⁶ ILO, Report VI, *Towards a Fair Deal for Migrant Workers*, International Labour Conference, Geneva, 2004.

While the majority of international migrants originate from developing countries, it is not only a “South-North phenomenon”. Close to half of all reported migrants move from one developing country to another.⁷

Three key determining factors - the “pull” of changing demographics and labour market needs in high income countries, the “push” of wage differentials and crisis pressures in less developed countries, and established inter-country networks based on family, culture and history – will continue to fuel international migration.

States regulate migration both from the perspective of attracting and managing inflows and, in some cases, promoting and managing outflows. The challenge for States is to manage migration for the benefit of countries of origin, destination and migrants. At the individual level, migration and remittances are usually outcomes of the decisions of families (including extended families) that are behaving optimally given the opportunities and constraints that they face

Migration from LDCs

Over sixty percent of LDCs are located in **Sub-Saharan Africa (SSA)**. The ILO estimates that as of 2000 there were over 16 million migrants in Africa of whom some 5.4 million were migrant workers, constituting nine percent of the world’s migrants. In addition are migrants from Africa in OECD countries and the Middle East. IOM’s World Migration Report (2005) notes that the main trends in SSA migration include⁸:

Increasing feminization: The proportion of females among migrants has been increasing and account for nearly 47 percent of the stock of migrants in the continent. More and more women are moving independently, not only as an accompanying spouse. They are taking low skilled service jobs as well as nurses and hospital aides.

Internal Migration and Urbanization: Increasing urbanization is generating significant internal population movements. Available statistics indicate an urbanization rate of 3.5 percent a year, the highest among continents.

Refugees and Internally Displaced Persons: Conflicts, human rights violations and other crisis together with poor governance continue to pose pressing problems for many African states and often result in forced migration. The major sources of refugees and IDPs have shifted over time. In recent years the shift has been to Central and West Africa (and western Sudan).

Regional labour migration: Traditionally labour migration in SSA has been directed to regional economic centres and within regional configurations. Regional economic communities such as ECOWAS, EAC and SADC have made some progress on facilitating regional labour mobility.

International migration: Historical, cultural and linguistic ties have prompted flows of skilled and unskilled migrants between African states and the former colonial powers in Europe. Two important trends that have emerged are the international recruitment of health workers and, in a different vein, irregular migration flows via the Maghreb and to Europe.

⁷ ILO, 2004

⁸ Sethi, Meera. “Migration Trends in SSA” in *World Migration 2005: Costs and Benefits of International Migration*, IOM World Migration Report Series Vol.3, Geneva.

LDCs in **South Asia** have significant labour migration flows to the Arab Gulf states and, to a lesser extent, Malaysia. In Afghanistan, large displaced populations and economic migrants reside in neighboring states.

Haiti, in the **western hemisphere**, is a major source country for labour migration in the Caribbean.

LDCs are active participants in internal, regional and inter-continental migration and will continue to be at least in the medium term given that the three determining factors underlying migration are present. As migration drives remittances, remittances will continue to play an important role as a source of finance in LDCs. **The question that arises, particularly for LDCs, is how can the development impact of remittances be enhanced?**

This paper will examine three aspects of remittance flows to LDCs – data collection, remittance services, and development impact. In doing so, the paper will draw upon responses to a questionnaire on remittances. The questionnaire, administered specifically for the paper and a compendium on remittances in LDCs, was responded to by policy makers in 12 countries. The paper will look particularly at three LDCs on the basis of country papers/notes that have been prepared (Bangladesh, Haiti, and Uganda). The paper will also refer to remittance studies pertaining to LDCs as well as effective practices developed in other developing countries.

2. Data Collection on Remittances

The use of remittances as a resource for development in migrant-sending countries requires better information and data on remittance flows, usage patterns, transfer mechanisms, good practices and attitudes and preferences regarding savings and investment schemes. Official records on remittances usually under-estimate remittance flows although such records can also inflate it by inclusion of non-remittance flows. In LDCs under-reporting is more common given the lack of remittance data collection and importance of informal remittances channels. A study estimated that in Sudan informal remittances accounted for 85% of total remittances.⁹

Of the 12 LDCs surveyed, eight reported that remittance data is currently being collected by the Central Bank or another government institution (**Table 3**). The data being collected pertains to volume of remittances flowing through formal channels and in some cases the remittance costs, the remittance channels and methods and the countries of origin. In general it can be stated that data collection on remittances in LDCs is weak. In Sub-Saharan Africa basic remittance data on flows is lacking for about two-thirds of the countries.¹⁰ The same holds true for Haiti and Afghanistan, both major receivers. Two problems in general with remittance data are common to LDCs as well. First, over-all relatively weak financial systems and high proportion of intra-regional migration suggests that informal remittances are likely to be a substantial share of total remittances in many LDCs. However data and estimates on informal flows are lacking. Second, is poor quality of data, faulty data collection or even misrepresentation whereby non-remittance payments are recorded as remittances.

Nevertheless the information gap is narrowing. Countries like Bangladesh and Uganda have taken steps to improve data collection on remittance flows. The enacting of the Foreign Exchange Act (2004) in Uganda requires all persons licensed to deal in transfers to submit returns. The Bangladesh Central Bank has been collecting data on remittances since 1972 and has recently moved to collecting weekly reports from commercial banks on remittance

⁹ Sander, Cerstin. Capturing a Market Share? Migrant Remittance Transfers and Commercialisation of Microfinance in Africa, Bannock Consulting, London, 2003, citing Brown (1982) in Puri et al, 1999.

¹⁰ Sander, 2003

flows.¹¹ Haiti reports that it is in the process of introducing a remittance tracking system. Moreover estimates and other data on remittance channels, costs and use are being derived from household surveys and polls conducted by international organizations and NGOs. Therefore while there is currently no data being collected by the Haitian government on remittances, Fonkoze, a microfinance organization and Inter-American Development Bank (IDB) have collected data on remittances to Haiti.

Table 3

<i>Country</i>	<i>Does the Central Bank or another government institution currently collect remittance data?</i>
<i>Uganda</i>	Yes
<i>Haiti</i>	No
<i>Cambodia</i>	Yes
<i>Bangladesh</i>	Yes
<i>Benin</i>	Yes
<i>Mali</i>	No
<i>Afghanistan</i>	No
<i>Burkina Faso</i>	No
<i>Burundi</i>	Yes
<i>Ethiopia</i>	Yes
<i>Lesotho</i>	Yes
<i>Tanzania</i>	Yes

3. Remittance Services (Channels)

Reducing remittance costs and increasing access to cost-effective, fast and safe remittance services, not only benefits migrants, but also potentially increases the funds remitted and made available to recipients in LDCs.

Remittances are sent in various ways – through banks, money transfer companies, by hand or through a third party (e.g. Hawala transactions) depending on a number of factors. The remittance industry consists of formal and informal transfer agents. At the formal end are global money transfer organizations (MTOs) such as Western Union and Money Gram as well as smaller MTOs that serve specific geographical markets such as Dahabshil for Somalia; global and national banks. At the informal end are unregistered MTOs such as hawala dealers, individuals, friends and relatives, bus drivers, traders and the like. The simplicity of the money transfer operation lends itself to the many unregistered actors who usually provide a service at a lower cost than the well-known MTOs.

It is generally recognized that remittance fees charged by the global MTOs are high, regressive (higher for smaller amounts) and non-transparent. Fees may be as high as 20 percent of the principal, depending on the remittance amount, channel, destination and origin country and service.¹² The average price is reported to be around 12 percent of the in 2004. Currency conversion charges are even less transparent, ranging from no charge in dollarised economies to six percent or more in some countries.¹³ Prices have declined in some high

¹¹ Siddique, Tasneem. Migrant Workers Remittances – Flows, Utilization, Policies and Prospects, The Case of Bangladesh, *Migration in Asia: Protection of Migrant Workers, Support Services and Enhancing Development Benefits* IOM, Geneva: 2005

¹² World Bank, 2006

¹³ Ibid

volume corridors, but still remain very high in low volume corridors, many of whom concern LDCs. The leading players in the transfers market earn large profits while the transaction cost for migrants although falling, remains relatively high. This situation is unwarranted when one considers the fact that usually the money transfer operation is a simple one and with low risk (see Figure 1 in Annex). Where there is sufficient volume or competition, there is no reason why remittance channels should not be low cost, efficient and accessible. Research by the World Bank indicates that with regards to major money transfer organizations (MTOs), the cost of a remittance transaction appears to be far lower than the price.¹⁴

Of the 12 LDCs surveyed, the global MTOs were mentioned as the main money transfer channel in most African countries and Haiti, while banks were more important in Asia (Bangladesh and Cambodia). Banks were active in some African countries as well. Informal mechanisms were reported in ten countries.

Table 4

Channel	Uganda	Haiti	Cambodia	Bangladesh	Benin	Mali	Afghanistan	Burundi	Ethiopia	Lesotho	Tanzania
Formal transfer channels	MTOs (Money gram and Western Union), Banking Institutions, Foreign Exchange Bureaus	MTOs (Western Union)	Banks	Banks Post Office	Post Office, Societies, Banks	Banks, MTOs (Western Union), French banks	Money transfer companies (Western Union) Swift	Money transfer companies (Money Gram, La Mutec)	Banks, Money transfer companies (Western Union and Money Gram)	Banks, Recruitment agencies	Banks, Money transfer companies (Western Union, Money Gram)
Informal Transfer channels	Foreign exchange bureaus, Trading enterprises and acquaintances	Personal contacts and third parties	Tourists/visitors, informal remittance companies	Hundi	Personal, informal transfer societies	Fax system operated by local merchants and businesses both in Mali and in migrant host countries, hand carried	Hawala System	-	Hawala Houses/informal transfer systems in the cities, cash transfers through individuals traveling to Ethiopia	-	Friends and relatives traveling abroad

A. Informal Systems

Informal fund transfer systems (IFTs) such as Hawala (see Figure 2 in Annex) can have legitimate and illegitimate uses. In some countries they are legal and labour migrants find the system quick, cost-effective, convenient, versatile and anonymous. However IFTs can have illegitimate uses as well including, circumventing capital and exchange controls, tax evasion, smuggling, money laundering and terrorist financing.¹⁵ Typically, IFTs thrive in jurisdictions

¹⁴ Ibid

¹⁵ El Qorchi, Mohammad, Maimbo Samuel M, Wilson John F, Informal Fund Transfer Systems An Analysis of the Informal Hawala System, IMF, Washington D.C. 2003

where the formal sector is weak or where significant market distortions exist. Fees charged are as low as 1-2 percent of the remittance amount with a delivery time of 24 hours.¹⁶

Hand carrying through transport operators, couriers, friends and relatives is also common in some regions, but this is vulnerable to leakage during border-crossings as well as theft. In Haiti a large number of remitters hand carry their money home, either by themselves or sent with a trusted friend or relative. This is the most common transfer method for Haitians living and working in the Dominican Republic (DR). According to the report, *Encuesta Sobre Inmigrantes Haitianos en la RD*, less than 10% of Haitian migrants in the DR use remittance transfer companies and about 12% use “choferes de confianza.” All the rest, close to 80%, transfer their money home by hand.¹⁷

Exchange rate over-valuation, restrictive foreign exchange practices, the lack of efficient, adequate and reliable banking facilities and low relative rates of return on financial assets as well as high transfer costs and low access to the formal sector help explain unrecorded remittances. Whether incentives can significantly divert remittances to formal channels when the fundamentals remain distorted and institutional deficiencies unrectified is doubtful. In this context most of the 12 LDCs surveyed reported that the national currency’s exchange rate was not overvalued (with the exception of Cambodia). However a number of LDCs do tax income from remittances (Haiti, Mali, Burkina Faso and Burundi), do not allow repatriable foreign currency accounts to be held by nationals (Mali, Burkina Faso and Ethiopia) and do not permit unrestricted access to foreign exchange (Haiti, Cambodia, Mali, Ethiopia and Tanzania). According to Bangladesh Bank officials, following liberalization of foreign exchange regulations in 2000-02, coupled with measures to drastically improve delivery time via national bank, flows through hawala (called hundi in Bangladesh) transactions significantly dropped.¹⁸ Bangladesh reported a 22.43 percent increase in formal remittances in the 2002-2003 fiscal year.¹⁹

B. Money Transfer Operators

As indicated earlier, global MTOs are the main formal remittance channels used in the African countries surveyed and Haiti. The main advantages perceived by users are access, speed, reliability and simple procedures. Less costly alternatives have developed but are not as widely available. MTOs like Western Union have good brand recognition (and have large marketing budgets). They are however relatively expensive to use as noted earlier. Smaller and specialized MTOs (like Dahabshil) are less costly for migrants with a typical fee of around 5 percent.²⁰

C. Banks, Credit Unions and Microfinance Institutions (MFIs)

Account based services for money transfers are usually less costly. A tabulation by the World Bank on the approximate cost of remitting USD 200 by major MTOs, banks, other MTOs, and Hawala, found banks to be more competitive than the major MTOs in all corridors where comparative data was collected.²¹

¹⁶ World Bank, 2006. Uday Kumar Varma and S.K. Sasikumar, External Migration and Remittances: Trends, Policies, Impact and Development Potential. The Indian Case, *Labour Migration in Asia: Protection of Migrant Workers, Support Services and Enhancing Development Benefits*. IOM, Geneva: 2005

¹⁷ Lara, Erasmo, *Encuestas Sobre Inmigrantes Haitianos en Republica Dominicana*, FLACSO Dominican Republic: 2004

¹⁸ Siddiqui (2006)

¹⁹ Orozco (2003) cited in World Bank, A Proposed Framework to Analyze Informal Funds Transfer Systems (Draft) 2003.

²⁰ Sanders, 2003

²¹ World Bank, 2006

Most of the LDCs surveyed cited banks as one of the top three formal mechanisms for money transfers, with banks ranking higher than MTOs in Bangladesh, Cambodia, Lesotho, Tanzania and Mali. MFIs have emerged as a player in some countries. The most common formal remittance channel for Haitian remitters is through remittance companies such as Western Union. Bank transfer is the second most popular formal transfer method and in some cases, these transfers are linked to locally based microfinance organizations such as Fonkoze.

According to the Haitian government, formal transfer companies charge transfer fees of approximately 8-10%. In a comparative case, the Haitian microfinance organization Fonkoze, which works in partnership with a US-based bank, offers simpler and more affordable fees.²² Customers are charged a flat \$10 fee for transfers, which range in size from \$10 to \$1000 and slightly higher fees for larger transfers (see table below). Transfers made to Haitian-based churches or NGOs are charged a \$10 fee, regardless of the transfer amount.

Table 5

Fonkoze Remittance Transfer Fees	
Transfer Amount	Transfer Fee
\$10-1000	\$10
\$1001 – 2000	\$15
\$2001 – 3000	\$20
\$3001 – 4000	\$25
\$4001 – 5000	\$30
\$5001 and above	\$50

In 2004, \$7.3 million in remittances were transferred through this alternative network. FONKOZE is the largest microfinance institution in Haiti offering a full range of financial services to the rural-based poor. To transfer money, a remittance sender sends money to Fonkoze's partner bank in New Jersey. The money is then transferred to a Fonkoze location in Haiti within 24 hours. All recipients have a savings account with Fonkoze and receive their remittance in that account. Other MFIs engaged in transfers include the National Microfinance Bank of Tanzania, Uganda Microfinance Union (UMU) and La Mutec in Burundi.

IRNet – a credit union service – is also an innovative alternative to MTOs and charges a flat rate of USD 6.50 per remittance. However the sender has to be a member of the credit union. LDC members where the credit union is active include Malawi and Rwanda. Associate members include Bangladesh, Gambia, Nepal, Samoa, Senegal, Uganda and Tanzania.

Apart from being less expensive than MTOs, banks have the advantage of complementing remittances services with other financial products.

D. Card Based Innovations

Card based innovations are cost-effective as well. Visa offers four products for money transfer and has tie-ups with banks, MFIs and retail outlets. None of the LDCs surveyed however mentioned cards as a top three transfer mechanism and this is not unexpected given that it is a relatively new mechanism (with scope for growth).

²² Fonkoze website (www.fonkoze.org)

E. Other

Financial service providers and other organizations that cater to the poor and migrants can forge creative institutional partnerships to provide remittance services. Alliances with banks, credit unions, postal networks, international MTOs and retail outlets can allow them to leverage their strengths (proximity to clients) and to overcome their weaknesses (limited transfer experience, restrictions on foreign exchange dealings and access to the payment system).²³

One way is the bundling of money transfers. In India, an NGO, Adhikar, is piloting a domestic money transfer service. Adhikar centralises the transfer and distribution of small transfers of migrants and routes them through one account in a partner bank. This brings down the transaction cost and generates a fee for the NGO.

The postal services with its wide network (and in some cases, already an actor in domestic remittances) are sought as a partner by MTOs. In the LDC survey postal services were mentioned as a top three formal channel in Bangladesh and Benin.

Government Initiatives

Over the years governments in labour sending countries have introduced a number of policy measures to influence the flow of remittances (and increase flows through formal channels). As remittances are private transfers, these policy measures have largely been in the form of incentives, but in some cases mandatory.

A. Mandatory remittance requirements

As a condition for issuing exit permits, the Korean government in the 1980s stipulated that at least 80% of the earnings of migrant workers be remitted through the Korean banking system. Available estimates indicate that this was met.²⁴ Similar attempts in other Asian countries failed due to implementation difficulties.

The effectiveness of the Korean policy is closely related to the unique features of the Korean labour migration process, best described as a “package” approach.

The Deferred Pay Scheme in Lesotho (and Mozambique) was set up in 1974 to “ensure that a higher percentage of money paid to Basotho mineworkers were invested/utilized in the domestic economy” and increase savings among mineworkers. It was stipulated that sixty percent of the basic wage should be deposited at Lesotho bank with the exception of the first thirty days. This was subsequently reduced to thirty percent of the wage in 1990.

Mining companies transfer the required thirty percent of the wage bill to a common account at the Lesotho Bank. Employees may make up to two emergency withdrawals. At the end of their contract, miners receive a deferred pay certificate from the mine. TEBA gives them an interest certificate. Both are encashed at Lesotho Bank.

Most miners in Southern Africa are recruited by the Employment Bureau of Africa (TEBA), a private non-profit organisation. Miners recruited through TEBA receive their wages on an

²³ Isern Jennifer, Deshpande Rani, van Doorn Judith, *Crafting a Money Transfers Strategy: Guidance for Pro-Poor Financial Service Providers*, the Consultative Group to Assist the Poor (GCAP), 25 October 2004

²⁴ Puri, Shivani, Ritzema, Tineke, *Migrant Worker Remittances, Micro-finance and the Informal Economy: Prospects and Issues*, Social Finance Unit, Working Paper 21, ILO, Geneva, 1998.

individual savings account with TEBA Cash, a private commercial bank in South Africa. Most miners remit part of their wages voluntarily to TEBA offices in Lesotho, on the payment of a commission. Relatives in Lesotho can also make a request for a remittance, which on the consent of the miner is transferred.

As in Korea it is a “package” approach and has worked well in directing remittances to the country of origin via formal channels. Between 1989 and 1993, 75 percent of the total miner income was remitted.²⁵ In 2002, Lesotho ranked second in terms of remittances as percentage of GDP (28.6%).

B. Financial Products to Attract Remittances

Currently India is the world’s largest remittance recipient country. Non-Resident Indian (NRI) deposits have been one of the main sources of attracting savings of Indian migrants. Various NRI deposit schemes have been in place since 1970. A series of incentives were provided including: higher interest rates, exchange rate guarantees, repatriation facilities and exemption of wealth and income tax on the amount and interest. The incentives were provided mainly with a view to augment foreign exchange reserves and with this being achieved, many of the incentives have been withdrawn since the 1990s.²⁶ A limitation has been that these accounts have proved attractive largely to migrants belonging to the professional and skilled categories. One of the most important initiatives in recent years to attract the savings of Indian migrants has been through floating specialized bonds. Two such bonds, Resurgent India Bonds (1998) and the Indian Millennium Deposits (2000) raised USD 4.2 billion and USD 5.51 billion respectively.²⁷

Bangladesh is also relatively advanced in providing financial instruments to attract remittances. Most of these were introduced after 2001.

Non-resident Foreign Currency Deposit (NFCD)

Migrants can have a **Non-resident Foreign Currency Deposit (NFCD)** account in any branch of Bangladeshi and foreign banks, which have an authorized dealership licence. The account can be opened for periods of one month, three months, six months or one year in US dollars, pounds 289 sterling (PS), Canadian dollars (CD), German marks (DM), Japanese yen (Y) or Euro-currency (euro). The minimum required balance is US\$ 1,000 or PS500 or their equivalent in other currencies. Accounts are renewable and can be maintained for an indefinite period, even after the return of the migrant worker. The migrant is also eligible to open an NFCD account with his or her savings within six months of returning to Bangladesh. Interest is calculated on the value in euros and is tax-free. The capital and interest of NFCD accounts can also be transferred into Bangladeshi taka at the current exchange rate. There is also provision for withdrawal of the capital before the expiry of the specified period, but in that case the account holder does not receive the interest. The Bangladesh Bank (BB) also allows investment of NFCD funds in remunerative business projects to provide competitive interest rates to account holders.

NFCD forms are available from Bangladeshi missions abroad. In order to make the schemes popular among migrants, BB has gradually simplified the formalities for these accounts by requesting only a photocopy of the migrant’s passport, a signature, or a certification from a public notary to open such an account. The Bangladesh Bank maintains regular contacts with foreign missions to promote the use of these procedures.

²⁵ Description of Deferred Pay Scheme is from Sparreboom, Theo and Sparreboom-Burger, Pete. Migrant worker remittances in Lesotho: A review of the Deferred Pay Scheme, Working paper 16, ILO, Geneva.

²⁶ Uday Kumar Varma and S.K. Sasikumar, 2005

²⁷ Ibid

Wage Earners' Development Bond

Remittances from Bangladeshi migrants abroad can be invested in Bangladeshi currency in five-year **Wage Earners' Development Bonds**. These bonds are available in different denominations: Tk.1,000, Tk.5,000, Tk.10,000, Tk.25,000 and Tk.50,000. They are issued for specific periods and accrue an annual interest of 12% (as of 28 November 2000). The profits can be invested in Bangladesh. If a bondholder wants to cash the bonds before expiry of the term, the migrant is entitled to interest at a reduced rate. The capital of the investment is freely transferable abroad in foreign currency and the interest is tax-free. These bonds are available from National Savings Bureau offices, branches of Bangladeshi banks abroad and Bangladesh missions abroad.

Non-resident Investor's Taka Account (NITA)

A migrant can open a **Non-resident Investor's Taka Account (NITA)** using money remitted from abroad for investment in shares and securities on the Bangladesh capital market. Such an account may be opened in any dealer branch of an authorized bank. The current balance of NITA can be transferred in foreign currency to any country at any time. The balance of the NITA can be used to buy share and securities through the stock exchange, and money earned as dividend and from the sale of shares and securities may be saved in a NITA. Capital and profits are exempt of tax and the bank directing the account can act as nominee.

US Dollar Investment Bond, 2002

The MoF's IRD introduced the **US Dollar Investment Bond 2002** on 16 October 2002 as an investment instrument in foreign currency for Bangladeshi emigrants (GoB, 2002) under the following conditions:

- **Eligibility for the bond:** US dollar bonds issued in the name of a holder of a non-resident account against remittances from abroad to the account.
- **Maturity, denomination, etc.:** US Dollar Investment Bond(s) mature for payment after three years from date of issue. The bondholder is entitled to draw interest half-yearly at a fixed rate of 6.5% per annum in US dollars. However, the bondholder may surrender bonds before maturity and be reimbursed in cash at the paying office, with interest as follows:
 - i) No interest during the first year of issue;
 - ii) 5.5% interest between one year and two years;
 - iii) 6% interest between two and three years; and
 - iv) 6.5% interest after three years.

Bonds are issued in the denominations of US\$ 500, \$1,000, \$5,000, \$10,000 and \$50,000, and in such other denominations as the government may decide. Principal and interest is payable in US dollars to the holder or a nominee. Money invested in bonds is exempt from tax payable under the Income Tax Act, 1922.

- **Nominee after death:** On the death of the bondholder, the nominee can draw the principal and interest in US dollars; if non-resident. For a resident nominee, the principal and interest are payable in Bangladesh currency.
- **Method of payment for the bond:** Payment for purchasing bonds can be made either by cheque or by draft in foreign currency against inward foreign exchange remittance, or by funds held in the non-resident foreign currency account of the applicant.
- **Additional benefit for substantial investments:** If a purchaser buys bonds totaling US\$ 1 million or more, he or she is considered a commercially important person (CIP) and is entitled to all the appropriate facilities. CIP facilities cease if the purchaser's investment falls below US\$ 1 million, due to subsequent encashment and on failure to retain the limit of US\$ 1 million through further investment in the bond within three months of encashment.

US Dollar Premium Bond, 2002

The **US Dollar Premium Bond 2002** is the most recent foreign currency investment instrument introduced for Bangladeshi emigrants by the MoF's IRD. Announced in October 2002, it was available from November 2002 (GoB, 2002).

- **Maturity, denomination, etc.:** US Dollar Premium Bonds mature three years from the date of issue. The bondholder is entitled to draw interest half-yearly at a fixed rate of 7.5% per annum in Bangladesh currency at the current USD/BDT rate. However, the bondholder may surrender the bonds before maturity for cash at the paying office with interest as follows:
 - i) No interest during the first year of issue;
 - ii) 6.5% interest between one year and two years;
 - iii) 7% interest between two and three years; and,
 - iv) 7.5% interest after completion of three years.

Bonds are issued in denominations of US\$ 500, \$1,000, \$5,000, \$10,000 and \$50,000, and in such other denominations as the government may decide. The principal amount is paid in US dollars to the holder or a non-resident nominee, where applicable. The principal due to the holder or nominee may be paid in Bangladesh currency, if desired, but interest is only paid in Bangladesh currency.

- **Eligibility:** Bonds are issued to a “non-resident account holder”, i.e. a Bangladeshi national with a foreign currency account residing abroad or a person of Bangladeshi origin (PBO) who has assumed foreign nationality and resides abroad.
- **Issuing authority:** The bond’s “issuing authority” is the BB, its branches or authorized dealers in Bangladesh and authorized offices abroad and any other authority determined by the government. A foreign correspondent of an authorized dealer bank may also act as an issuing office.

Source: Siddiqui (2005)

Other than Bangladesh, the only LDC that reported providing financial instruments to attract investments from remittances was Uganda. Treasury bills and bonds are offered to non-residents for investment purposes.

C. Incentives

South Asian countries like Bangladesh, India and Pakistan have also put in place additional incentives to attract remittances. In Bangladesh in 2002, as an outcome of a series of inter-ministerial meetings, the following incentives were provided to emigrants:²⁸ tax exemption for money remitted through official channels; no longer the need to furnish a tax identification number (TIN) certificate on purchase of immovable properties in Bangladesh; and during the period of 1 July 2002 to 20 June 2006, ability to invest any amount of money in commercial and industrial sectors without enquiries into the source of funds by the government. Further incentives were introduced for emigrants interested to set up agro-based industries in Bangladesh.

A quota has been provided for the emigrant Bangladeshis (EBs) in government housing projects and a thousand sites have been reserved for them. Opportunities have also been created for EBs to avail low cost housing. Emigrants get preference if they purchase in US dollars. Special incentives are also in place for those emigrants who are interested in investing in communication and transport sectors.

²⁸ Siddiqui, 2005

The Privatisation Commission has also offered cheaper rates for EBs while purchasing denationalised industries. Incentives offered are:

- (i) 40 percent reduction in the price for emigrants if they pay 100 percent price at a time within thirty days.
- (ii) 20 percent reduction of price if 75 percent of the total price is paid at a time within thirty days.
- (iii) Extra 5 percent reduction of price if the payment is made in foreign currency.

The government has also decided to honour Important Non-Resident Bangladeshis (INRB) investing in the country. A committee has been formed to frame a policy. Emigrants who will invest equivalent of US\$500,000 in foreign currency and who the remit equivalent of US\$750,000 will be honoured as INRBs.

In Pakistan a series of incentives was announced in 2001 reflecting the importance that the government placed on remittances as a tool for economic development. Linked to a minimum remitted amount (USD 2500 to 10,000), overseas Pakistanis were given privileged access to higher education, public housing and share offerings as well as free renewal of passports and import duty exemption (for USD 700 per year).

D. Counseling and advice

As a part of pre-departure orientation given to migrant workers, state overseas employment entities in the Philippines and Sri Lanka advise workers on how to remit their earnings. LDCs which provide information to nationals abroad on remittance channels and cost, mainly through a website, national banks or embassies include Uganda, Bangladesh, Mali, Burkina Faso, Ethiopia and Tanzania.

It is clear however that much more can be done in the area of providing information to migrants about the real costs of remitting and the various transfer options available in the host countries.

E. Simplification of transfer procedures and extending financial network

National banks in Sri Lanka, Bangladesh and India have opened branches in migrant receiving areas and established correspondent accounts with international banks in order to extend their financial services network. (MTOs have extended their domestic network through partnerships with local agents and the postal service.) The streamlining of transfer procedures (in terms of both simplification and speed) has led to a marked increase in remittances through formal channels in Bangladesh.

Relatively longer transaction time in delivering remittances was identified as one of the major reasons for choosing unofficial channels²⁹ In 2001, the Ministry of Finance (MOF) issued a circular to all nationalized commercial banks (NCBs) instructing that remittances must reach the clients within 3 days of receipt of the draft/TT. It was communicated that stern action was to be taken against bank functionaries if remittances remain unprocessed for more than the stipulated days. Accordingly, the circular was followed by concrete actions. A few functionaries of NCBs were penalized ranging from show-cause or transfer to temporary suspension for their lapses.

Both NCBs and private commercial banks (PCBs) were encouraged by BB to switch over to the Electronic Fund Transfer (EFT) system. This has reduced time as well as bureaucratic procedures for remittance transfer. One of the major problems of less educated migrants was to accurately fill in the draft and the fees in posting the draft. However with the introduction of EFT on a greater scale these problems have been addressed.

²⁹ Siddiqui

In the past, delays in remittance delivery were also due to withholding of remittances in the international 'nostro account' of the NCBs for certain periods ranging between a week to a fortnight. This was to yield undue interest on the remittances. The BB instructed all NCBs for daily reconciliation on the remittances received. It is now mandatory to recover remittances on daily basis. After such instructions and concomitant monitoring, it was found for example that US \$ 25 million was received by a branch of a NCB from Saudi Arabia in a month. Once delays in nostro accounts were settled, lead-times in remittance transfer were substantially reduced.

BB has recently permitted opening of new exchange houses in locations with large concentrations of Bangladeshi migrants. It has also minimized the timeframe in scrutinizing applications for developing correspondent relationships between foreign banks and exchange houses with NCBs and PCBs. Currently, 267 drawing arrangements are in operation with 96 exchange houses in different parts of the world. Besides these, PCBs are also receiving permission to open branches in new areas (Sonali Bank et al, 2002).

Source: Siddiqui, 2005

F. Access to services for irregular migrants

With the backing of the U.S. and Mexican governments, Mexican Consular Identification Cards (CICs) issued in the U.S. are becoming an accepted form of identification for opening U.S. bank accounts – thus introducing irregular migrants to the formal financial sector. Mexican officials have successfully negotiated with banks and transfer agencies in the U.S. so that from December 2001, some 15 banking institutions and their branches allow migrants from Mexico – whether legal or illegal – to open bank accounts on presentation of identity cards provided by the Mexican consulates. Migrants' relatives at home can then use the ATM cards to withdraw funds for about USD 3 per transaction – far less than the usual money transfer fee.³⁰

G. Sound macro-economic policies and institutional framework

It is recognized by many experts in the field that the most important measure governments can take to stimulate remittance flows and realise its development potential is to create a sound policy environment that minimises macro-economic uncertainty and ensures the transparency and standard regulation of financial institutions. Governments need to pursue sound monetary policies – including correctly valued exchange rates, ensuring a positive real interest rate and liberalise foreign trade. But this is not enough. Governments also need to establish an institutional framework for the safe and low cost transmission of remittances and the competition and proper operation of all participants. In tandem with incentives, the most important step governments can take to stimulate remittance flows and realise their development potential is to create a sound policy and legal environment that promotes capital inflows, including remittances.

Bangladesh is a good example of an LDC that since the early 2000s has undertaken various proactive measures for encouraging the flow of remittance through official channels. When the seventh parliamentary government began its tenure, the foreign exchange reserve of the country was as low as US \$100 Million. Finding the terms of international credit unpalatable, the government identified remittances as a potential source for increasing the foreign exchange reserve. Ever since, the government has been undertaking concrete reform measures for increasing the inflow of remittances through official channels. The reform measures can be divided under four broad heads. These are macroeconomic reforms, streamlining the transfer process, development of lucrative investment instruments, framing legislation for

³⁰Sharon Stanton Russel, *Migration and Sustainable Development – the Remittances Link*, Remarks for ECOSOC Substantive Session, 2 July 2002

curbing money laundering and encouraging entry of non-traditional players into remittance transfer market.³¹

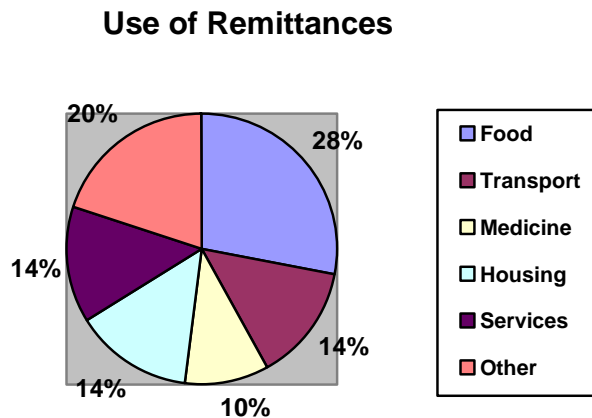
4. Enhancing the Development Impact of Remittances

As mentioned in section one, in recent years a view has emerged that migration and remittances are outcomes of the decisions of individuals and families that are behaving optimally given the opportunities and constraints they face. Simplistic views that remittances lead to “excessive” consumption, import dependency or “unproductive” investment in housing and land are no longer tenable. The potential costs of remittances are now viewed as largely deriving from “moral hazard” problems.

Migrant remittances constitute an important source of foreign exchange, enabling countries to acquire vital imports or pay off external debts. Remittances also play an important role in reducing poverty.³² There is growing awareness of the potential that remittances have to contribute economic development in migrant-sending countries at the local, regional and national levels. Given that remittances are private funds, they should not be viewed as a substitute for official development assistance

Use of Remittances

In Guatemala an IOM survey (2004) found 53 percent of remittances received were directed to household expenditure on basic items such as food and clothing. A further 11 percent was directed to education and health. As much as 36 percent was directed to savings, economic purposes and for the purchase of assets (including housing). A recent study of remittance flows to Haiti from the Dominican Republic found a major share being allocated for basic needs.



Source – “Encuesta Sobre Inmigrantes Haitianos en la Republica Dominicana”

In the countries of the former USSR (Tajikistan, Moldova, Armenia) studies have found that the amount allocated for savings and investment is small. In Tajikistan (IOM, 2003), labour migration and remittances has led generally neither to the individual accumulation of wealth or nor accelerated the pace of SME development. Nevertheless, as a survival strategy, labour migration has been a crucial stabilizing factor to offset the effects of economic crisis. (IOM and UNDP have initiated a pilot project to take things further. Working with community

³¹ Siddiqui

³² Ibid

organizations, house-holds receiving remittances are identified, training in business planning and management provided and loans to match investment from remittances extended.)

Where the investment climate is safe and the returns attractive, migrants have invested in financial instruments for development (India, Development Bonds). Philanthropic contributions have also resulted (Latino Hometown Associations in the United States, Malian and Senegalese diaspora).

Given that remittances are private funds, measures to enhance their development impact, most experts believe, should only be in the form of incentives. As argued in section two and three, the first two steps in enhancing the development impact of remittances is, first, to improve data collection and the knowledge base on remittances, and second promote measures to make the transfer process less costly, more accessible and safe. Third, more direct measures can be taken to enhance the development impact of remittances at the micro and macro level in LDCs.

a) Financial Instruments to attract remittances, investment and capital.

As mentioned in section two, Non-Resident Indian (NRI) deposits have been one of the main sources of attracting savings of Indian migrants. One of the most important initiatives in recent years to attract the savings of Indian migrants for development purposes have been through floating specialized bonds. Two such bonds, Resurgent India Bonds (1998) and the Indian Millennium Deposits (2000) raised USD 4.2. billion and USD 5.51 billion respectively.

Bangladesh has also utilized various financial instruments (described in section two) to attract capital from its migrants. Uganda encourages migrants to invest in treasury bills and bonds and provides information to its Diaspora on investment opportunities and partnerships in development initiatives.

Establishing remittance-backed bonds through securitization of future remittance flows: Remittance-backed bonds enable countries to raise funds at lower interest rates on international bond markets. They have been issued in several countries: Brazil, El Salvador, Mexico, Panama, and Turkey. This initiative might be premature for countries, where financial institutions do not have experience with issuing bonds on international markets. The idea of remittance-backed bonds is very intriguing but needs to be evaluated cautiously³³.

b) Business Development and Investment Schemes for Migrants

Governments in Asian labour sending countries have instituted some special programs to both assist with reintegration of returning migrant workers as well stimulate investment and business development. Such initiatives have basically taken four forms:

- Facilities for importing capital goods and raw material
- Business counseling and training
- Entrepreneurship development
- Access to loans

IOM and UNDP are implementing a project in Tajikistan at the grass-roots level that matches investment from remittances in business start-up or expansion with business training, credit and advice.

³³ Roberts, 2004.

c) Banking remittances

Financial intermediaries can attract migrant deposits and channel them to loans by existing small and micro-businesses. In other words labour sending LDCs might wish to induce micro-finance institutions to attract remittances. Banks, credit unions and regulated MFIs are in a good position to leverage the economic impact of remittances. Remittances can also be directed to leveraging housing loans. In Guatemala the government and IOM are developing an innovative project to finance low cost housing for migrant families from remittances and a housing subsidy. Mali has reported having a matching fund program for housing.

The formal remittance transfer market to Haiti is dominated primarily by Western Union, Money Express and CAM. Although these companies charge high fees and have a poor rural network, they remain popular, most likely because remittance senders have confidence that their money will arrive safely. Apart from formal remittance transfer companies, a growing number of North American based remittances are choosing to use the transfer services of FONKOZE, Haiti's Alternative Bank for the Organized Poor. In 2004, \$7.3 million in remittances were transferred through this alternative network. FONKOZE is the largest microfinance institution in Haiti offering a full range of financial services to the rural-based poor. Established in 1994, Fonkoze currently has over 64,000 savers, over 26,000 active borrowers (99% of whom are women) and 24 branch offices spread throughout every department of Haiti. The services offered include: (1) solidarity group and individual loans that are used to start or expand small business, (2) savings products geared towards meeting the needs of the poor, (3) currency exchange services that allow Haitians to change US dollars into Haitian gourds at a preferential rate, (4) money transfer services that allow Haitians living overseas the opportunity to transfer funds to Haiti at a very low cost, (5) literacy and business skills training, and (6) sexual and reproductive health. To transfer money, a remittance sender simply sends money to Fonkoze's partner bank in New Jersey. The money is then transferred to a Fonkoze location in Haiti within 24 hours. All recipients have a savings account with Fonkoze and receive their remittance in that account. Fonkoze offers several unique benefits to their clients, including: low fees, services in rural areas, direct deposit into a savings account, the option for senders to attach special rules and the choice for receivers to access funds in US\$ or in local currency.³⁴

On a similar note, USAID is currently working with ACCION International's microfinance organization, SOGESOL, in Haiti, providing technical assistance to help analyze the organization's potential to handle remittances, draft business plans, acquire the necessary technological infrastructure and develop new financial products, technologies and services for their entrepreneurial clients. USAID will assist SOGESOL in establishing agreements with money transfer companies and in building ties with migrant communities and HTAs in the US. SOGESOL currently has more than 7,000 clients and an active loan portfolio of over \$5 million. 65% of their clients are women.³⁵

d) Home Town Associations (HTAs)

The Latino HTAs in the United States draws together people from the same town or state in the country of origin enabling them to retain a sense of community as they adjust in the U.S. Typically, their first purpose is social, extending to activities in the hometown. Perhaps the most successful and best-known example of migrant involvement in a range of development activities can be found in the Mexican HTAs. The Mexican state of Zacatecas has one of the oldest matching fund programs that has been emulated by two other states in Mexico. Under these programs, the Mexican government teams up HTAs and other actors to spur economic

³⁴ Fonkoze website (www.fonkoze.org)

³⁵ US Agency for International Development, "Remittances in USAID." Web-based background paper, 26 June 2004.

development. Initially, for every dollar donated by the emigrants, the federal and state governments added a dollar each. In recent years, the municipal government is an equal contributor as well. The projects funded tend to be projects that benefit the entire community – those pertaining to schools, health, sanitation and civic works.³⁶

Among the LDCs, Mali and Burundi reported providing matching funds for local development projects supported by the Diaspora. Malian and Senegalese groups in France have been active in financing communal projects in the country of origin.³⁷ In the Kayes region of Mali contributions from Malians living in France have helped build sixty percent of the infrastructure.³⁸ About 40 Malian migrant associations in France have supported nearly 150 projects valued at three million Euros over a decade.³⁹

e) Sound macro-economic policies and institutional framework

As mentioned in section three, the most important thing governments can do to stimulate remittance flow and realize its development potential is to create a sound policy environment that minimizes macro-economic uncertainty and ensures the transparency and standard regulation of financial institutions. Governments need to pursue sound monetary policies – including correctly valued exchange rates, ensuring a positive real interest rate and liberalize foreign trade. But this is not enough. Governments also need to establish an institutional framework for the safe and low cost transmission of remittances and the competition and proper operation of all participants. In tandem with incentives, the most important step governments can take to stimulate remittance flows and realize their development potential is to create a sound policy and legal environment that promotes capital inflows, including remittances.

An indicator of financial sector stability is whether the people commonly use banks for depositing their savings. As Table 6 indicates this was not reported to be the case in Haiti, Cambodia and Afghanistan in the LDC survey.

Table 6

Do people commonly use banks for depositing their savings?	
<i>Uganda</i>	Yes
<i>Haiti</i>	No
<i>Cambodia</i>	No
<i>Bangladesh</i>	Yes
<i>Benin</i>	Yes
<i>Mali</i>	Yes
<i>Afghanistan</i>	No
<i>Burundi</i>	Yes
<i>Ethiopia</i>	Yes
<i>Lesotho</i>	Yes
<i>Tanzania</i>	Yes

³⁶ Rodolfo O. de la Garza and Briant Lindsay Lowell (ed). *Sending Money Home: Hispanic Remittances and Community Development*, Rowman and Littlefield, Oxford, 2002

³⁷ Sander, Cerstin and Maimbo Samuel M. *Migrant Remittances in Africa: A Regional Perspective*, World Bank, Washington D.C. 2005

³⁸ Mutume, Gumisal. *Workers' Remittance: a boon to development*, Africa Renewal, UNDP, New York, October 2005

³⁹ Ibid

Apart from a few countries, as illustrated in section 3, not very much has been done in LDCs to directly enhance the development impact of remittances. There is therefore a lot of scope for specific actions and pilot initiatives. This should go hand in hand with promoting sound macro-economic policies and institutional framework that promotes all financial inflows and investment, including remittances. The World Bank has recently argued that increasing incentives to increase flows and channel them to more productive uses is more problematic than reducing transaction costs and improving the overall savings and the investment climate.⁴⁰ Indeed countries like India have promoted preferential NRI deposits as a means of generating foreign exchange and removed incentives once the foreign exchange reserves are no longer low. However a recent measure to levy taxes on interest from NRI deposits appears to have an adverse impact on the inflow of NRI deposits, which continue to play an important role in transferring of Indian migrants' savings despite other investment opportunities.⁴¹ Matching fund programmes such as that for Zacatecas in Mexico have indeed not been rigorously evaluated in terms of development impact.

There is no doubt that the scope and benefit of reducing transaction cost is clear cut, and improving the overall climate for savings and investment is the first best option and critical. However the latter is often a medium to long-term process for nations. In the interim, incentives and specific opportunities for migrants to invest in their country of origin may be helpful, particularly if there is a foreign exchange crisis. Similarly while much more can be done in terms of capacity building of HTAs and their partners in the effective implementation of development projects, and evaluation of whether national funds are being diverted from better uses, there is little doubt that mobilisation of philanthropic contributions of Diaspora organisations for grass-roots development is a positive measure.

5. Conclusions

As remittances are private funds there are essentially two stakeholders – the remittance sender and recipient. In between there are a host of actors – the intermediaries in the transfer process, governments in both receiving and sending countries responsible for the policy framework, supervision and facilitation, and institutions engaged in research and seeking to enhance the development impact of remittances. Governments of LDCs are clearly important actors given the potential role remittances can play in alleviating poverty.

To begin with, the paper recognizes the positive role remittances play in LDCs as a source of foreign exchange and in providing the many remittance-receiving households an income source to meet basic needs. In addition there is growing awareness of the potential that remittances have to contribute economic development in migrant-sending countries at the local, regional and national levels.

Many LDCs are active participants in internal, regional and inter-continental migration and will continue to be at least in the medium term given. As migration drives remittances, remittances will continue to play an important role as a source of finance in LDCs. The question that arises, particularly for LDCs, is how can the development impact of remittances be enhanced?

The first two steps in enhancing the development impact of remittances is, a) to improve data collection and the knowledge base on remittances, and b) promote measures to make the transfer process less costly, more accessible and safe. Third, measures can be taken to more directly enhance the development impact of remittances at the micro and macro level in LDCs.

⁴⁰ World Bank, 2006

⁴¹ Uday Kumar Varma and S.K. Sasikumar, 2005

The use of remittances as a resource for development in migrant-sending countries requires better information and data on remittance flows, usage patterns, transfer mechanisms, good practices, and attitudes and preferences regarding savings and investment schemes. Data collection is currently weak in most LDCs and can be improved by:

- Putting in place a centralized data collection and reporting mechanism for banks and MTOs so that remittance flows can be recorded and measured
- Conducting house-hold and key informant surveys to assess types of remittance services and their efficiency; the volume of informal remittances; use and impact of remittances
- Sharing of good practices among policy-makers, remittance companies, banks and MFIs.

Reducing remittance costs and increasing access of remitters to cost-effective, fast and safe remittance services, not only benefits migrants, but potentially increases the funds remitted and made available to the recipient in LDCs. There is ample scope in most LDCs to promote more efficient and safe services.

Steps that can be taken in LDCs in this regard are:

- To promote regularization of the informal transfer sector through registration and filing of returns
- To promote sound macro-economic policies and financial sector capacity building and accountability. This includes the setting up of simplified and clear regulatory frameworks pertaining to foreign exchange management and liberalisation of the exchange rate regime;
- The introduction of measures to deepen and widen the foreign exchange market and provide specialized banking services to Non-Residents; involvement of a larger number of banking and other financial institutions in the transfer of remittances; increased access to banking service points both in the source and recipient countries to reduce costs and increase efficiencies
- The strengthening of communication and relations in general with the Diaspora in different countries;
- Transformation and adaptation of formal transfer systems, to incorporate qualities of speed, flexibility, cost-effectiveness and accessibility that make informal systems attractive to migrants and their households;
- The adoption of innovative linkages between information technology and financial transfer systems to reduce the cost of remittance flows, taking into account the best national and international experiences;
- Ensuring that countries which have a system of emigration clearance for departing workers give the opportunity to migrants to open a bank account of their choice; the offer of low cost pre-departure loans as a way of encouraging migrants to use formal banking channels;
- Information dissemination on remittance services and options via pre-departure orientation and in Migrant Resource Centres (MRCs) established in countries of destination;
- Enhanced coordination between the Department of Labour Migration, the Department of Finance, major financial institutions and other agencies, as appropriate, on the issue of external labour migration and associated remittance flows;
- Capacity building for improved consular services for migrants, including the setting up of data bases, and the issue of identity documents, which are secure, to facilitate use of formal remittance channels.

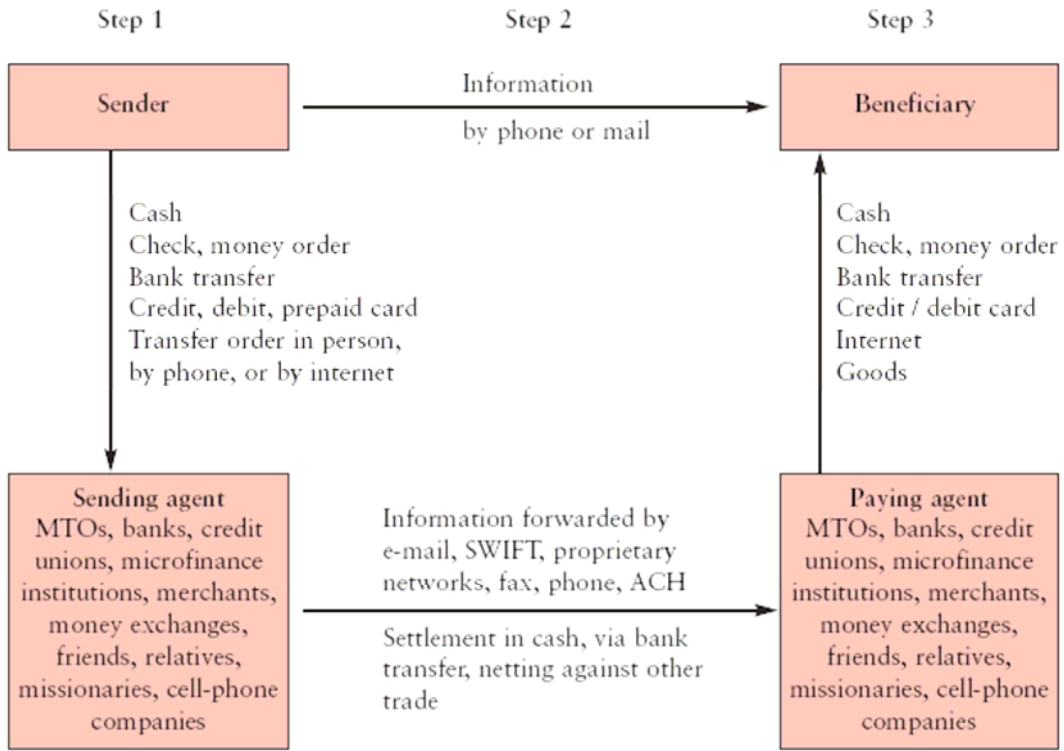
It should be recognized that remittance inflows are the source of not only foreign exchange receipts, which can be used to finance the balance of trade deficits or the current account deficit, but also of productive investment and social development. Bearing in mind that remittances are private funds, the development potential of remittances can be magnified in LDCs by:

- The identification of productive and sustainable avenues of investment for remittances, for instance by facilitating the setting up of enterprises directly by migrants or through intermediate mechanisms and by transferring savings via deposit accounts and specialised bonds; and by developing loan products for migrants and their families including in housing.
- The formulation of policies that enhance the contribution of migrant associations to country of origin development.

The paper has recognised that remittances and migration, particularly labour migration, is closely linked. The effective management of labour migration, including protection of vulnerable migrant workers, enhancing legal labour migration opportunities and interstate cooperation all contribute to increased remittance flows or the opposite. It has not been within the scope of the paper to address this issue except by way of introduction, but this by no means discounts the inter-relation and importance.

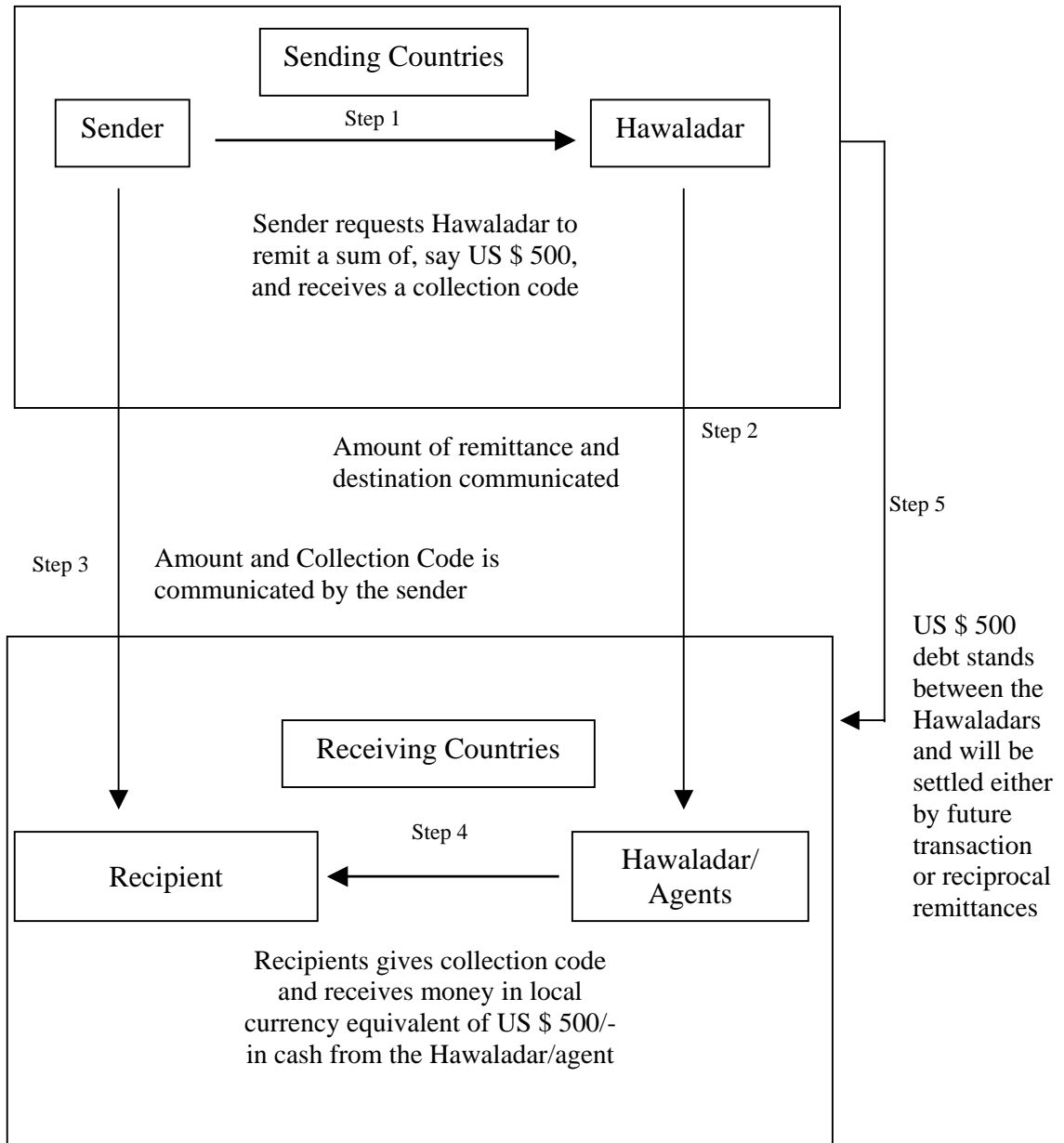
ANNEX

Figure 1 – Stylized Remittance Transaction



Source: World Bank, 2006.

Figure 2 - Operation of Hawala System



Source: Uday Kumar Varma and S.K. Sasikumar, 2005

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