SESSION FIVE A

POSITION PAPER “REMITTANCES AND DEVELOPMENT”

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What are remittances?

In recent years, remittances have received a growing amount of attention from academics, policy makers, migrant associations and certain financial institutions. The World Bank’s most recent Global Economic Prospects (published at the end of 2005) focused, for instance, entirely on the economic implications of remittances and migration (see World Bank 2005). In its broadest sense, remittances refer to cash or in-kind transfers from one place to another. Most of the recent literature and attention focuses, however, on international remittances to developing countries. These financial flows include: money sent by individual migrant workers and other members of diaspora communities to families/friends residing in countries of origin; financial investments in housing or business; and economic savings in banks in the country of origin. Another form of remittances are charitable donations made by individual migrants/migrant associations for certain aid projects in the country of origin. A number of migrant diasporas have even set up development projects in their home countries (Carling 2005). The most common example of such projects is probably the Mexican Hometown Association in the USA (see, for instance, Orozco 2003 and 2005).

On the other hand, remittances within countries – between developing countries and between developed countries – are less discussed in recent debates. In addition, in-kind transfers are also often overlooked.

What is the volume of remittances?

The renewed interest in remittances is due to the growing volume of official financial remittances to low-income countries and to their potential contribution to the economic development of the receiving countries. According to World Bank estimates (2005), developing countries received USD 126 billion in official remittances in 2004. This is USD 10 billion more than that received in 2003, and USD 27 billion more than that in 2002. In 1995, total official remittances to developing countries totalled USD 53 billion.

Not every region contributes equally to these figures. While the Latin American and Caribbean diasporas and the South Asian diaspora sent USD 37 billion and USD 33 billion respectively to their regions of origin, Sub-Saharan African diasporas officially transferred a total of only USD 6 billion (World Bank 2005).
These figures, however, do not take into account unrecorded remittances. Money can also be sent through informal channels, such as via hand (carried by friends or family), through NGOs or religious missions, or through informal transfer systems known under various names (such as ‘hawala’, ‘hundi’, or ‘fei qian’). In countries lacking a well-functioning formal financial system, such as Somalia, the DRC, and Afghanistan, informal channels are often the only alternative for transferring money. It is therefore possible that informal remittances could amount to more than the volume of officially recorded remittances (see, for instance, De Bruyn & Kuddus 2005; Maimbo & Ratha 2005; Pieke et al. 2005).

**Remittances and development?**

Officially recorded remittances have become the second highest source of external funding for developing countries – ahead of Official Development Assistance (ODA), but following Foreign Direct Investments (Ratha 2005). Not surprisingly, policy makers and academicians have been looking at remittances as a *development tool* for developing countries. An important difference between remittances and ODA is the private nature of the former financial flow. The majority of remittances are sent by individuals to their families in the country of origin. Furthermore, as the poorest members of society often lack the financial means to migrate abroad, they are less likely to have family members abroad who would send remittances. International migration is a costly venture (see, for instance, De Bruyn & Kuddus 2005). Nevertheless, remittances can have different levels of both positive and negative impact on the development of the country of origin. Table 1 lists a number of the most cited conclusions in research on this topic.
### Table 1 Possible positive and negative impacts of remittances (De Bruyn & Wets forthcoming)

<table>
<thead>
<tr>
<th>Positive impact of remittances</th>
<th>Negative impact</th>
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<tbody>
<tr>
<td><strong>Macro-economic level</strong></td>
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<tr>
<td>Strengthening balance of payments by provision of foreign exchange</td>
<td>Deterioration of balance of trade by stimulation of import and appreciation of local currency</td>
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<tr>
<td>Remittances are stable and counter-cyclical</td>
<td>Deterioration of the ‘social balance’</td>
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<td>Remittances tend to decrease as migrant community is more established in destination country</td>
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<td></td>
<td>Economic dependency of remittances</td>
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<td><strong>Household/level</strong></td>
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<tr>
<td>Allowing families to meet basic needs</td>
<td>Dependency on remittances and neglect of local productive activities by families</td>
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<td>Opening up of opportunities for investing in children’s education, health care, etc.</td>
<td>Hardly used for productive investment</td>
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<td>Loosening of constraints in family budget to invest in business or savings</td>
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<td>Emergency resources</td>
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<td>Social security resource base</td>
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<td><strong>Community and regional level</strong></td>
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<tr>
<td>Boost of local economy</td>
<td>Increase inequality between families who receive remittances and those who do not</td>
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<td>Inflation</td>
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<td>Financing local development projects</td>
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### Policy measures

To harness the potential positive developmental impact of remittances and also address the needs of receivers and senders of remittances, a number of policy initiatives have been taken/ proposed by intergovernmental organizations, governments, NGOs, migrants’ associations, and financial institutions (for an overview see, for instance, De Bruyn & Wets 2004a and b; Carling 2005; CFSI 2004; House of Commons IDC 2004).

The main policy measures focus either (or simultaneously) on:

1. *Increasing remittances*: e.g. facilitating and stimulating labour migration.
2. *Capturing a portion of remittances for governmental spending*: e.g. taxing incoming remittances.
3. *Stimulating formal remittance methods*: e.g. decreasing costs of formal transfer by stimulation of competition; information campaigns about pricing systems; development of synergies between banks and microfinance institutions.
4. Providing options in using remittances for economic investment, social (i.e. education, health, etc.) or housing purposes: developing financial services (savings and investment schemes) for migrants; launching specific bonds and accounts; assisting migrant entrepreneurs.

5. Supporting the development initiatives of migrant associations: e.g. developing institutional frameworks to support and subsidize development projects based on migrant initiatives; matching funds schemes.

Issues for discussion

The main issues that are being discussed at the moment by policy makers refer to the different measures that can be taken to enhance the development impact of remittances. Of these measures, three have been selected. In addition, emphasis is placed on a couple of issues that are often ignored in the debate on remittances and development.

- How can migrant associations be included in remittances (or broader) migration and development policy initiatives? What kind of institutional structure is needed to support their initiatives? One can take the example of the Linkis Network in the Netherlands, through which migrant (and similar) associations can apply at six NGOs for subsidies for their development projects. At the same time, a network of other NGOs can be approached for advice about the content of development projects (for more information, see http://www.linkis.nl).
- How can financial institutions be included and motivated to develop remittance services? What kinds of synergies are possible between microfinance and savings institutions and banks, and how can these be supported?
- How can new technologies address the needs of senders and receivers, especially in remote areas? For instance, mobile phones are being used to remit money in a number of Sub-Saharan African countries (see Batchelor 2005 and Sander 2005).
- What kind of development is being pursued? The debate on remittances and development focuses primarily on economic benefits for the country of origin and for the migrant and his/her family. The social and human rights costs or gains of the migration process – both for the migrant and his/her family – are often overlooked. Hence, most policy measures aimed at remittances do not go beyond a pure economic approach.
- Who is the focus of these policy measures? The specific needs of undocumented migrants are not the focus of much policy debate on remittances. In addition, they are often excluded from using direct formal remittance channels, due to the fact that in most countries senders have to give proof of residence and identity to formal transfer agencies.
- Furthermore, specific gender needs in sending and utilizing remittances (for instance, access to financial services for women) are often overlooked (see INSTRAW 2004).
References


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