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Can remittances support development finance in developing countries?

Alex Julca

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Policy messages

***** Economic policies to channel remittances into development finance should be able to translate remittance-receivers motivations for food, health, and education spending as well as entrepreneurial activities into measures that boost social and economic development, including local and regional production.

* Remittances have become a finance-of-last resort in low-income countries and as part of a diversified portfolio of finance in middle-income countries. For both sets of countries, remittances policies should be linked to broader fiscal, financial and institutional policies, and embedded within national development strategies.

***** A national development bank can be a catalyser for harnessing public and private interests on remittances and support the scaling up of remittances investment programmes by building-up partnerships with regional and multilateral development institutions.

***** The role of remittances as a source of development finance should not be magnified. As countries develop, the share of remittances in total resource flows decreases, with the share of domestic and other external resources becoming more important.

Introduction

Rising steadily for the past thirty years, with the exception of the Great Recession in 2008-2009, remittances flows[1] have become a significant source of income and finance for receiving economies. They represent about three times official development assistance and over half of foreign direct investment annually received by developing

[1] Until recently, international remittances were defined as the sum of workers' remittances, compensation of employees, and migrants' transfers. Based on recommendations by a Technical Working Group on improving remittance data led by the United Nations (UN), the World Bank and the International Monetary Fund (IMF) in 2006, migrants' transfers are not included in the definition anymore and workers' remittances were replaced by the concept of 'personal transfers'. Therefore, since 2009 the IMF defines remittances as: **(1) 'compensation of employees'** and **(2) 'personal transfers'**. The income of short-term migrants (living abroad for less than 12 months) is included in the definition, although it may never be transferred (at least not entirely) to the origin country (ACP Observatory on Migration 2011).

countries; while numerous specialists have underscored the multiple impacts of remittances at the local, regional, and national levels (Maimbo and Ratha 2005; Grabel 2008; Mohapatra et al 2011; Adams Jr. and Cuecuecha 2010). A question remains, however, whether appropriate policies can boost remittances' volumes and be more effectively channelled as development finance.

This paper tries to grapple with this question. The first part evaluates the relevant trends of migrant remittances, including their importance as external source of finance, and surveys the motivations behind remittance-senders and receiving families. Attention to the motivations of migrant senders and receiving families are important for thinking on remittance policies within a broader development strategy. The second part assesses the progress attained and remaining gaps on remittances policies in receiving-countries. The third part presents a typology that classifies remittances policies as fiscal, financial and institutional, identifying the objectives pursued, the policy instruments used, and main results found. This part proposes a framework to mainstream remittances into development finance by strengthening national development banks and their links with multilateral development institutions.

1. Main trends and characteristics of remittance flows

International remittances flows to developing countries have been estimated at $351 billion in 2011, up 8 per cent over 2010 and projected to reach $414 billion by 2014. They represent over 70 per cent of worldwide international remittances, which include flows to high-income countries. However, downside risks continue due to slow growth in the US and Europe and persistent unemployment which affects employment prospects of immigrants. Volatile exchange rates and uncertainty in oil prices also cast shadow on the prospects of remittances flows (Mohapatra et al. 2011).

The main sources of global remittance flows are the United States, estimated to be US $53 billion in outward remittances in 2011, followed by Saudi Arabia with $28 billion. Switzerland, Germany, and Russian Federation are also important sources of remittances.

South-South remittances flows make up for approximately 40 per cent of remittances received by developing countries, which means that about half of migrants from developing countries migrate to other developing countries. In fact, remittances to low-income countries mainly originate in middle-income countries. Likewise, remittances flows to Africa mainly originate elsewhere in Africa rather than in other continents. Remittances from Europe and Asia are mainly sent to North Africa (Agunias 2006).

Who send remittances?

The remittances literature indicates that for African countries and the Latin America and the Caribbean region, remittances mainly originate from low-skilled immigrants (Fajnzylber and Lopez 2008, Orozco 2004, Mohapatra et al. 2011, Ratha et al. 2011). The econometric results by Faini (2007) also indicate that the correlation between the share of skilled migrants and remittances is negative, which suggests that the *reunification effect* (bringing close relatives to destination) is stronger than the *wage effect* (sending remittances).

In the same vein, the study for 71 developing countries by Adams (2008) finds that countries that export a larger share of high-skilled (educated) migrants receive less per capita remittances than countries that export a larger proportion of low-skilled migrants. In the same study, instrumental variable results suggest that a 10 percent increase in the share of high-skilled migrants from a labor-sending country will reduce the amount of per capita remittances received by 11.2 to 19.7 percent, while a similar 10 percent increase in the share of low-skilled migrants will increase the level of remittances received by 9.1 to 19.8 percent.

One possible explanation is that either high-skilled migrants come from upper-class families that might not expect remittances or that families are more likely to join migrants at destinations, so savings, consumption and investment would mainly occur at migrants' destinations (Niimi et al. 2008). In contrast, for low-skilled immigrants, many of them coming from a working-class background, sending remittances can be a better option since hard currency with often higher and more stable purchasing power than domestic currencies can support basic consumption, health and education spending, microfinance, and purchasing of land and housing.

Nonetheless, a cross-country study that covers different developing regions by Docquier et al. (2011) finds that high-skilled migrants are more likely to send remittances than low-skilled migrants when immigration laws are restrictive. This finding might indicate that low-skilled immigrants are more sensitive to restrictive immigration laws so they would return home or spend/invest more at destinations, particularly when they are undocumented. It is also possible that the study did not consider the fact that restrictive immigration might coincide with higher rates of unemployment and lower wages for low skilled immigrants e.g. last Great Recession, so they would not save enough to keep remittances at same levels. The study does not provide enough information on its assumptions and data gathering to have a more definite response.

Channels for transmitting remittances

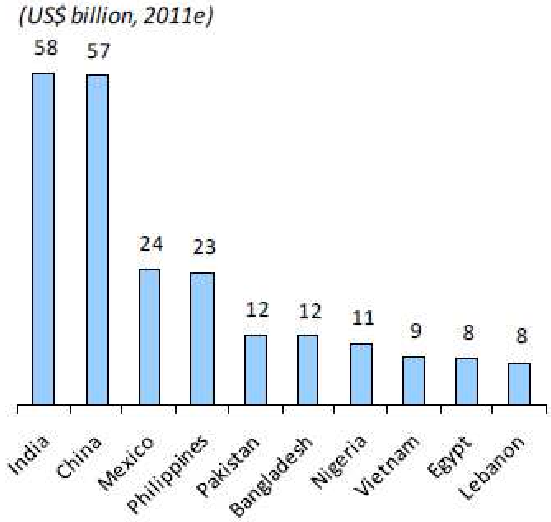
Remittances flows are transmitted through formal and informal channels. Formal channels include banks, money transfer organizations (MTOs), micro-finance organizations and postal houses. Immigrants' preference in the use of these channels varies according to total transfer cost, security, speed, and access. In the case of remittances sent from the United States, Latin American immigrants prefer to use MTOs. Banks would charge a higher rate for an average remittances' transaction of $100-300 and would require that senders and families be clients of the bank. The average rate that an MTO charges is 5-7 per cent (Terry and Wilson 2005). However, Latino immigrants in Spain tend to use the bank *La Caixa* to send remittances because it has a network of well-established partner banks in receiving countries, and provides security, national coverage, speed and micro-credit programmes linked to remittances (Maimbo et al. 2005). It is estimated that South-central Asian countries (Nepal, India, Bangladesh and Pakistan) receive 60 per cent of remittances through formal channels e.g. banks, the rest is sent through informal channels.

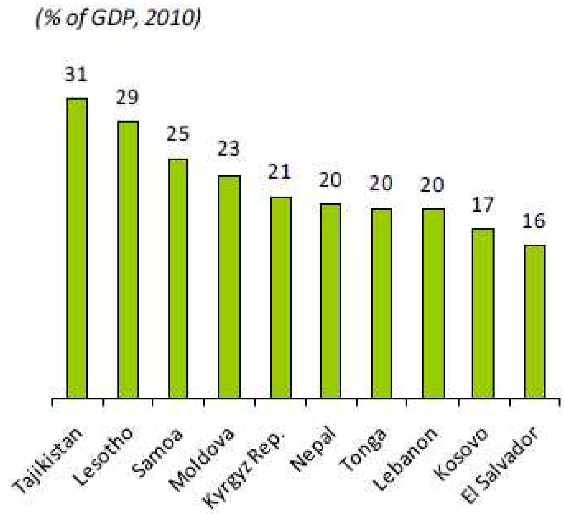
A significant proportion of the remittances flows sent to African countries are not registered since they are transmitted through informal channels (e.g. *xawilaad* in Somalia). Surveys on remittances sent through informal channels still remain scanty. Cultural and cost factors affect the use of informal channels. Sending remittances with co-ethnics help to strengthen social relations with friends, family and local communities. High costs, dual exchange rates for money transfers, lack of legal documentation for formal transactions by remittance-sender migrants, and inadequate money transfer infrastructure are additional reasons behind the use of informal channels (Irving et al. 2010; Grabel 2008). It is estimated that at least 80 per cent in Uganda and Sudan are sent through informal channels, while for some African countries the value of remittances in-kind might be equal or higher than money remittances (Sander and Maimbo 2003).

Main destinations of remittance flows

Typically, the economies of many geographically small countries, including some least developed countries (LDCs) and Small Island Developing States (SIDS), depend heavily on remittances flows. Figure 1 shows that the 10 top recipient countries have a share between 16-31 per cent of GDP. In the case of Tajikistan and Lesotho, one of every $3 dollars of GDP comes from remittances. In terms of absolute flows, remittances flows are highly concentrated in a few countries. India, China, Mexico, Philippines, Pakistan and Bangladesh receive over half of the remittances flows to developing countries, while India and China combined have about one-third of total remittances flows (Mohapatra et al. 2011).

Figure 1: Top 10 recipient countries of migrant remittances





Source: Mohapatra et al. (2011)

Which motivations are behind sending remittances?

In general, remittances flows are mainly sent for food, clothing, health, and school spending, although purchasing of durables, land and real estate or starting a small business are also important. However, immigrants' interests in sending remittances are context-specific e.g. vary from region to region and from country to country.

The Orozco (2003) study, for example, finds that in the case of Mexico, Nicaragua and El Salvador no less than 75 per cent of remittances are spent in food items. Research in Guatemala also indicates that 50 per cent of remittances are used for consumption goods (food, clothing), though men spend slightly more on these items than women, who spend slightly more on health and education (United Nations-INSTRAW 2007). In the case of Albania the proportion of remittances spent on food items is 63 per cent and 25 per cent on durables (Castaldo and Reilly 2007). Similarly, while 50 per cent of remittances flows to Kenya are spent in land purchases, building houses, businesses, improving the farm, agricultural equipment and other investments, in Nigeria 20 percent of remittances are spent in purchasing land (Ratha et al. 2011). In the case of Indonesian immigrants in Hong Kong (China) and Japan, remittances are mainly sent for education and savings, similar to the choice made by Malaysian immigrants in Japan (Asian Development Bank 2006).

In countries where most of the remittances are received by some of the poorest, a larger proportion of remittances are used in food, clothing and other basic consumption goods. For example, the study by Adams and Cuecuecha (2010) on Indonesian households found that comparing households receiving remittances in 2007 with a counterfactual situation in which these households did not receive remittances, households receiving remittances increased their marginal expenditures on food by 8.5 per cent, and reduced their marginal expenditures on housing by 39.1 per cent.

From the point of view of the immigrant, buying land, a house (or building one), is an investment. These are assets that could potentially increase in value and whose services might provide a rent, while also reduce risks associated with the need of liquidity or a loan collateral. For the case of Guatemala, Adams (2005) argues that households receiving remittances spent less at the margin on consumption and more on investment goods such as housing, education, and health. For migrants, increased expenditures on housing represent a type of investment as well as a form of local economic development by creating new income and employment opportunities for skilled and unskilled workers. Ratha et al. (2011) indicate that older Nigerian immigrants are more likely to invest in housing in their hometown and devote a larger share of household income to housing investments than younger migrants. In fact, housing investments may be the first stage of a broader investment relationship between migrants and their countries of origin.

In sum, remittances are private transfers received by family relatives to be used for private consumption, saved or invested in health, education (social investment), real estate and small businesses. However, the impact of remittances on domestic demand and finance grows since they circulate widely throughout the receiving economy, as a sizable part of effective demand and as a financial leverage for production and trade. In fact, remittances are channelled by market forces and can alter private finance. While their impact is broadly shaped by economic policies, remittances can also change the expected outcome of these policies e.g. trade, monetary. The question is whether economic policies can channel remittances more effectively towards development finance.

Significance of remittances as source of income and finance[2]

Table 1 indicates that remittances flows to developing countries of all income-levels have grown exponentially since 1980. They duplicated during the decade 1990-1999 relative to 1980-1989 and tripled thereafter. Growth of remittances in low-income countries has been five times higher in 2000-2009 relative to 1990-1999, while the remittances trend for LDCs has also shown significant growth. However, low-income countries do not receive the bulk of remittances. Over 90 per cent of the volume of remittances is concentrated in middle-income countries, which have tripled their volumes of remittances received between 1990-1999 and 2000-2009.

Table 1: Remittance flows to developing countries (US$ billion), per decade

	1980-1989	1990-1999	2000-2009
Remittances to developing countries	217	499	1,762
LDCs	18	40	132
Low-income countries	11	21	113
Middle-income countries	194	457	1,610
High-income countries	11	21	39

Source: UN/DESA, based on data provided by WDI Database online (http://data.worldbank.org/data-catalog/world-development-indicators)

It could be inferred from table 2 that the growth of remittances during 2000-2009 has helped to keep low-income countries afloat. Remittances represented six per cent of low-income countries' GDP in 2000-2009, higher than in 1990-99 when they only represented one per cent. The remittances per capita ratio also grew four times during that time. Similarly, the ratio of total remittances to total exports was 28 per cent during 2000-2009, while the total remittances received became equivalent to total official development assistance (ODA). A similar trend was visible in LDCs. For middle-income countries, remittances did not represent more than 2 per cent of GDP in 2000-2009; however, the remittances per capita indicator was 38, which doubles the figure of low-income countries.

[2] Much has been written on the stability and counter-cyclical nature of remittances flows. Although for a long time those characteristics were well accepted, new studies have began to cast doubts on them. For a detailed synthesis of the discussions see Grabel (2008).

Table 2: Remittance Flows and Ratios, by income level and LDCs, per decade[1]

	Low Income		
	1980-1989	1990-1999	2000-2009/2010
Remittances as a % of Exports	7	9	28
Remittances as a % of GDP	1	1	6
Remittances as a % of ODA	22	29	100
Remittances per capita (US$)	3	4	17
	Middle Income		
Remittances as a % of Exports	5	5	7
Remittances as a % of GDP	1	1	2
Remittances as a % of ODA	165	228	641
Remittances per capita (US$)	6	12	38
	High Income		
Remittances as a % of Exports	0	0	0
Remittances as a % of GDP	0	0	0
Remittances as a % of ODA	54	108	15,652
Remittances per capita (US$)	15	22	39
	LDCs		
Remittances as a % of Exports	10	14	19
Remittances as a % of GDP	1	2	5
Remittances as a % of ODA	29	46	99
Remittances per capita (US$)	4	7	19

Sources: United Nations: Exports of Goods and Services; GDP; Migrant Stock; Population. World Bank: Remittances. OECD: ODA.

[1] 2009 latest data available for Exports of Good and Services, GDP and ODA. 2010 latest data available for Population and Remittances.

The study by Adams (2008) suggests that an inverted-U shaped curve exists between the levels of per capita income and per capita remittances in a country. With all other factors held constant, the level of per capita remittances received by a country increases until a country has a per capita income of about $2,200 per year, and falls thereafter. Thus, middle-income countries receive more per capita remittances than low- or high- income countries.

More broadly, table 3 indicates that while remittances are as important as ODA for low-income countries, they are as important as foreign direct investment (FDI) for middle-income countries. For Sub-Saharan Africa, ODA, FDI and remittances are all equally important, contrasting with Asia where remittances constitute 55 per cent of the main external inflows, higher than FDI (39 per cent) and ODA (6 per cent). In Latin America and the Caribbean region, FDI flows represent 53 per cent of the main external inflows, followed by remittances (43 per cent) and ODA (4 per cent). On the other hand, for the sample of developing countries provided in table 3, remittances are the most important source of finance, except for (middle-income) emergent countries such as South Africa, Brazil and China where FDI is more important.

Table 3: External finance inflows to developing countries, 2009

Income groups, regions, and a sample of countries	FDI (net)		ODA		Remittances		Total	
	% GDP	% External Flows	% GDP	% External Flows	% GDP	% External Flows	% GDP	% External Flows
All developing countries	1.4	41.7	0.3	9.3	1.7	49.0	3.4	100
High-income countries	0.4	58.1	0.0	0.3	0.3	41.7	0.6	100
Middle-income countries	1.6	44.2	0.2	6.2	1.8	49.6	3.6	100
Low-income countries	1.4	10.6	5.9	43.9	6.1	45.5	13.4	100
Region								
Africa	2.6	36.4	2.1	28.6	2.5	35.0	7.2	100
South Africa	1.4	69.6	0.3	14.8	0.3	15.5	2.0	100
Sub-Saharan Africa	2.7	35.9	2.6	33.8	2.3	30.3	7.6	100
Asia	1.2	39.0	0.2	6.5	1.6	54.5	3.0	100
Bangladesh	0.8	6.0	0.8	6.0	11.8	88.0	13.4	100
China	1.4	58.5	0.0	1.0	1.0	40.5	2.4	100
India	1.5	27.8	12.0	2.2	3.9	70.0	5.5	100
Pakistan	1.4	18.4	0.8	10.8	5.4	70.8	7.7	100
Philippines	1.0	7.4	0.2	1.1	12.3	91.5	13.5	100
Latin America and the Caribbean	1.7	52.5	0.1	4.1	1.4	43.3	3.2	100
Brazil	2.3	88.8	0.0	0.8	0.3	10.4	2.6	100
El Salvador	1.7	8.9	1.2	6.3	16.5	84.3	19.5	100
Mexico	1.0	27.3	0.0	0.5	2.5	72.2	3.5	100

Sources: United Nations: GDP. World Bank: FDI; Remittances. OECD: ODA.

Overall, international migrant remittances have become a finance-of-last resort in low-income countries, and as part of a diversified portfolio of finance in middle-income countries.

2. Remittances policies and programmes implemented

For the past twenty years the remittance policy literature has made progress on assessing different aspects of remittances such as a) the implementation of regulatory frameworks to reduce transfer costs in different corridors; b) the support to financial inclusion; c) the support to investment motivations of diasporas. Further measures are still needed to reduce the remittances' transfer cost in African and East Asian corridors and for understanding the policy implications of the multiplier effect of remittances. The next paragraphs briefly elaborate on some of these issues.

Cost-reduction of transferring remittances

These policies have been applied to enhance competition in the remittance market, improve payment systems, and increase transparency (Fajnzylber and López 2008).

On the whole, the average remittance cost, weighted by bilateral remittance flows, has consistently declined for the past twenty years. More recently, average remittance costs fell from 8.8 percent in 2008 to 7.3 percent in the third quarter of 2011. Costs have continued falling in high volume remittance corridors, such as from the US to Mexico, UK to India and Bangladesh, and France to North Africa.

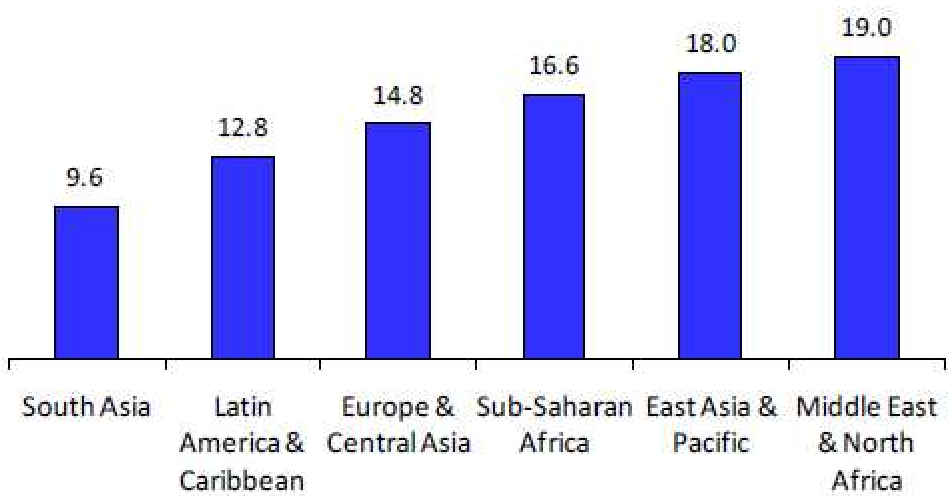
In particular, for the past two decades the cost of remittances transfer has declined for the Latin America-United States and Latin America-Spain corridors, averaging 5-7 per cent for every $200 of remittances. Likewise, the average transfer cost is 3-5 per cent for the corridors that link Singapore or the United Arab Emirates with South Asian countries.

An example of cost-reduction to transfer remittances is the bilateral agreement for coordination between the Federal Reserve Bank of Atlanta and the Mexican central bank. Through this program, called '*Directo a México*', the existing payment infrastructure of both countries is connected, thus lowering the costs of transfers for payments from US bank accounts to Mexican banks accounts (Hernández-Coss 2005). Originally created for the transfer of pension payments to Mexico, this mechanism is now promoted especially for remittances transfers at one of the lowest fees in this corridor. One reason for the low cost is the usage of the FIX - the inter-bank exchange rate – minus a small spread (0,21 per cent) as reference exchange rate for the transaction. In general, MTOs apply less favorable exchange rates, thereby elevating transfer costs considerably.

However, progress has been uneven. Figure 2 shows that the weighted average cost for sending $200 is most expensive in the Middle East & North Africa and East Asia & Pacific recipient regions, while it is less costly in South Asia and Latin America & Caribbean regions. Transfer costs of various corridors within Africa, particularly the ones that link South Africa with Zimbabwe, Mozambique, Angola, Zambia and Botswana are as high as 17-22 per cent.[3] The cost also averages 16-19 per cent for corridors linking Japan to Brazil, India, China and Korea (Mohapatra et al. 2011).

For the positive trend observed in South Asia and Latin America & Caribbean regions, it has been fundamental the increase of market competition among MTOs and the wider application of cheaper and appropriate remittance technology.

Figure 2: Weighted Average Cost of Remitting $200 to Developing Regions, third-quarter 2011 ($)



Source: Mohapatra et al. (2011)

The disparities and high transfer costs in different corridors have been examined by the G8 and G20 countries, and both have agreed to the objective of reducing global average remittance costs by 5 percentage points in 5 years ("5 by 5"objective).

[3] The cost includes the transaction fee and the exchange rate margin.

Financial inclusion of the unbanked

These policies are directed to give migrants and families access to bank accounts and other financial products such as consumer loans, mortgages, life and non-life insurance products and pensions (Terry and Wilson 2005).

There are examples of the financial inclusion of the unbanked. On the remittance-receiving side, a prominent attempt of improving Mexican migrants' families' access to financial services is '*L@Red de la Gente'* (Network of the People). This network was founded by the Mexican national development bank BANSEFI (*Banco de Ahorro Nacional y Servicios Financieros)* and includes over 180 credit unions and other MFIs with more than 1600 branches. Cooperating with various US-based MTOs, *L@Red de la Gente* offers remittance-based services in Mexican rural and urban areas with low incomes and high migration density, which are often not covered by the official banking system. A new initiative of the *Red* to foster the bancarisation of its clients is the "Beneficiary Account Registration" (BAR) mechanism through which a remittance-sender in the US can open a bank account in the name of a recipient family member in a credit union branch in Mexico. The receiver then has to formalize the account personally when receiving the remittances.

In El Salvador, the cooperation between market and civil society organizations has led toward the financial inclusion of many people living in small towns and rural areas (IFAD 2010). The Federation of Associations of Savings and Credit Cooperatives (*Federación de Asociaciones Cooperativas de Ahorro y Crédito* de El Salvador, FEDECACES) offer remittance services to its clients since 1998. It cooperates with a group of US-based MTOs by channeling money transfers directly to its branches often located in areas where MTOs have no presence. Receivers have the option to join one of the cooperatives opening an account and/or get access to other financial products like loans or insurances.

Support to investment motivations of remittance-senders

Specialists have written profusely on remittance-senders and, more broadly, on diasporas' potential[4] for contributing effectively to the development of remittance-receiving countries (Davies 2012, Hercog and Siegel 2011, Agunias 2006).

Many countries have given the right to dual nationality in order to facilitate close links between migrants and their home country and ensure continuity of remittance flows. Ratha et al. (2011) argue that dual-citizenship is a relevant factor for diasporas' participation in trade, investment, and technology transfer, while it makes easier to travel to, remit and own land in the origin country. A host country's citizenship can improve migrants' earnings and their ability to send remittances to and invest in the origin country. Information available indicates the following twenty African countries allowing double citizenship: Algeria, Angola, Benin, Burkina Faso, Cape Verde, Central African Republic, Cote d'Ivoire, Egypt, Gambia, Ghana, Kenya, Mauritius, Morocco, Namibia, Nigeria, Sierra Leon, South Africa, Togo, Tunisia, and Uganda.

On the other hand, the Salvadorian government institutionalized diaspora policies by creating the General Directorate for the Communities Abroad (*Dirección General de Atención a la Comunidad en el Exterior,* DGACE) as part of the Ministry of Foreign Affairs in 2000. In addition, a special Vice-Ministry for Salvadorians Abroad (*Viceministerio de Relaciones Exteriores para los Salvadoreños en el Exterior)* was created in 2004. The DGACE organizes its activities along three main lines: cultural, economic and social programs.

Under the Temporary and Circular Labour Migration programme (TCLM) between Colombia and Spain, specific efforts have been made in Spain to promote the contribution of migrants to local development upon their return to Colombia. This includes training in entrepreneurship, consultancy workshops aimed at defining and formulating productive social initiatives, courses for co-development community projects, and mentoring in the preparation of business plans.

[4] Definitions of diasporas vary across countries; for a discussion on definitions of diasporas see Ratha et al. (2011).

In an effort to capture the saving capacity of immigrants demonstrated by their remittances to families, a few countries have issued diaspora bonds as a way to finance development projects. Although diaspora bonds are not remittances, their finance source are the same e.g. immigrants' savings, and both share some degree of substitution. This is particularly the case of institutional remittances which are often sent for local and regional development projects.

For example, policies in Israel and India have been relatively successful in engaging diasporas in the purchase of investment bonds, raising about US$40 billion (Ratha et al. 2011). In the case of India, the government has devised incentives so migrants would send and invest money in India's growing economy. It has eased regulations and controls, eliminated the black-market premium on the rupee, and created convenient remittances services. The Indian and international banks have systematically shifted remittances from the informal "hawala" channels to formal channels. Indians abroad have also responded to several attractive deposit schemes and bonds offered at home. Yet, except for the successful launch of diaspora bonds for Israel and India, the hard numbers showing the engagement of diasporas with their countries of origin are still elusive.

3. A framework for mainstreaming remittances into development finance

Remittances policies across countries for the past twenty years or so have had multiple objectives, uses, and results. The next subsection is an effort to synthesize and classify them at the macroeconomic level. The idea is to provide a wider view of remittances policies both in terms of country implementation and the degree of application and potential for mainstreaming remittance policies into national development policies.

A typology of remittances policies

Table 4 classifies remittances policies according to objectives such as either increasing remittances inflows or increasing their effective use, although there are unavoidable overlaps between both objectives because it is not always possible to separate the impact of those policies. The review of the remittances literature suggests that there are only 44 countries that have implemented some kind of remittances policies, which represent about a third of all developing countries receiving remittances.

In principle, remittances policies can be classified as fiscal, financial, and institutional. Fiscal and financial policies are the most common used to increase remittances flows, while financial and institutional policies are the most often used to improve remittances effectiveness. In the former case, the instruments used include development bonds, various kinds of tax incentives to import fixed capital or remit through the banking system as well as preferential interest rates, exchange rates, and the set up of foreign currency accounts; while in the latter case the main objectives are to promote investment and inclusive finance.

The policy instruments used include electronic transfers, microfinance, various types of insurance as well as the establishment of regulatory frameworks for remittances transfer and their use; financial literacy programmes, and training for start-up businesses. The main goals are the reduction of transfer costs, use of remittances as collateral for loans and securitization, and inclusive finance.

The main hurdles for the implementation of remittances policies have to do with the need of capacity building and the scale-up of microfinance programmes. Capacity building includes the areas of project design, IT training, and management skills. Also, much focus on investment in microenterprises has overlooked the access to bigger finance by small firms. An indirect effect of this has been the inadequate attention to the links between local, regional and national as well as a higher probability that microfinance programmes stayed isolated from broader development objectives and thus without enough funding.

Table 4: A typology of remittances policies implemented by countries

IDF objectives	Policies	Instruments, projects, products	Objectives	Country examples	Risks , hurdles	Results
Increase inflow of remittances	Fiscal	Development bonds, diaspora bonds, infrastructure Development Bond (Nepal); Diaspora Social Investment Fund (Liberia), Diaspora Mutual Fund (Rwanda), First Investment Fund (Zambia)	Finance public investment, enhance relations with diaspora	China, India, Bangladesh, Sri Lanka, Pakistan; Israel; Eritrea, Ethiopia, Lebanon, Philippines, Nepal	Financial illiteracy, little awareness; need of tailored programmes to low and skilled migrants	Vary. Good results for Israel and India ($40 billion raised), and Lebanon; still early to assess in others
		Exemption from taxes and state inspections for migrant firms; tax-break for remitting thru banks; buy land at preferential prices	Promote investment, savings	Egypt; Moldova	Benefit remittance receivers, not wider population; link with national development objectives	No much evaluation (check evaluation in paper by O'Neill (2011)
		Tax to remittances; reduction of national compulsory service of male migrants if paying 'fine' in foreign exchange; requirement of a percentage of earnings for government fund	Increase fiscal revenues	Ecuador, Peru, Georgia, Poland; Turkey; Viet Nam	Reduction of remittances, tax evasion	Increase informal remittances
		Tax-breaks on imported capital goods; preferential access to import of capital goods and raw materials	Promote investment	Philippines; India, Pakistan	Link with national development objectives	No evaluation found
	Financial (Monetary)	Preferential interest rates for savings and credit; interests exempt from income tax	Promote inclusive finance, facilitate seed-investment, home ownership	India, Bangladesh, Sri Lanka, Pakistan, Tunisia; Albania	Financial illiteracy; links with national development objectives	No evaluation found
		Preferential exchange rates; "inter-bank exchange rate"; reduction of commission rates, monitoring units in banks	Promote investment, lower transfer cost	India, Bangladesh, Sri Lanka, Pakistan, México	Links with national development objectives	Good
		Foreign currency accounts	Promote inclusive finance, investment	India, Bangladesh, Sri Lanka, Pakistan, Nepal, Tunisia, Guatemala	Links with development objectives	Good

Table 4 continued: A typology of remittances policies implemented by countries

IDF objectives	Policies	Instruments, projects, products	Objectives	Country examples	Risks , hurdles	Results
Increase inflow of remittances	Institutional	Governments set up Migrant service bureaus, official representations; international money transfers go thru Central Bank or controlled by state; business advisory services; bank counselling on local investment opportunities; dual citizenship	Support investment; enhance relations between government and diasporas; regulate foreign exchange flows and trade	Albania, Philippines; Brasil, Viet Nam; Pakistan; Thailand; Colombia, Costa Rica, Dominican Republic, Ecuador, Peru, El Salvador, México, Panama, Uruguay, Kenya	Governments are prone to "moral hazard"; alienation from policies on dual-nationality and political inclusion	A good start; mainly to use the economic potential of diasporas, not their political influence
Improve effectiveness of remittances' use	Fiscal (with regional and local support)	Matched funding: local or federal government allocate $2 or more for every $1 invested in community of origin to finance various infrastructure; training remittance-receiver entrepreneurs and migrants, provide technical assistance to start-up businesses	Promote community development (remodel churches, schools, purchase small fire trucks); encourage migrant associations and individual migrants to invest	México, El Salvador, Guatemala, Costa Rica, Peru, Nicaragua, Brasil, Bolivia, Colombia, Ecuador, Uruguay, Dominican Republic, Argentina, Guyana	Federal organization decides projects, not the HTAs; HTAs are not investment groups; difficulty identifying businesses with link to diasporas. Scale up of projects. Executing agencies need business expertise	Technical assistance provided to start-up businesses. Good at local level, no much impact at regional and national levels
	Financial	Loans to families using remittances as guarantee; housing loans (mortgages)	Promote inclusive finance; access to real estate	Moldova, Guatemala, Peru, México, Colombia, Ecuador, El Salvador	Benefit remittance receivers, not the rest of population. Scaling-up. Loan repay (higher amounts and longer terms than other loans)	Financial inclusion of senders and receivers; increase home ownership; inclusion of remittance flows in loans is now widespread

Table 4 continued: A typology of remittances policies implemented by countries

IDF objectives	Policies	Instruments, projects, products	Objectives	Country examples	Risks , hurdles	Results
Improve effectiveness of remittances' use	Financial	Bankarization: electronic transfers, microfinance, certificate of deposits; "remittance transfer cost calculator"; "Red de La Gente"; "Beneficiary Account Registration"; Federation of Associations of Savings and Credit Cooperatives	Promote inclusive finance; banks' partnerships and bilateral agreements in remittance markets; lower transfer costs	Nepal, México-USA, Albania-Greece/Italy; Colombia, México, El Salvador, Guatemala, Philippines, Dominican Republic, Ecuador, Nicaragua, Bolivia, Haiti, Peru, Paraguay, Honduras	Governance capacity-building needs; liquidity management; profitability of remittance-transfer services in small entities. Scaling-up.	Financial inclusion and education of senders and receivers; increased access of MFIs to remittance flows; design of new products (savings account linked to debit cards; housing and business loans); build trust in financial institutions
		Development Immigrant Bank as part of national development strategy; immigrant welfare funds	Leverage use of remittances and their multiplier effects	Bangladesh	Integration of immigrant bank within national development plan	Still early to say
		Securitization (used at least once by one of the countries)	Use remittances flows as collateral for loans	Brazil, Turkey, El Salvador, Panama, Jamaica, Colombia, Kazakhstan, Arab Republic of Egypt, Russian Federation, South Africa, Republic of Korea	Sovereign risk during crisis periods	Fairly good, still on experimental phase. Larger potential (Ratha et al. 2011)
		Insurance for non-migrant relatives (health, life); pension funds, saving packages; tourism packages	Support social development	Guatemala	Scaling-up	Good at micro level

Table 4 continued: A typology of remittances policies implemented by countries

IDF objectives	Policies	Instruments, projects, products	Objectives	Country examples	Risks , hurdles	Results
Improve effectiveness of remittances' use	Institutional	Assistance to institutions to improve policy, legal and regulatory frameworks for remittance transfers and their use, establishing standards and practices	Boost competitiveness (reduce transfer cost) and more accurate assessment of remittances flows	India, México, El Salvador, Albania, Honduras, Brasil, Colombia, Guatemala, Haiti	Institutional implementation	Reduced transfer cost to 5 per cent in Latin America-US and Latin America-Spain corridors (for $200 remittances); governments are more aware of amount of remittances (periodic and more accurate measurements)
		Financial literacy through education programmes, information; training to set up micro-businesses; National Action Plan on Remittances (improve data, expand banking, develop partnerships between banks and those in the main destination countries)	Strengthen financial depth, increase knowledge of formal remittance channels and formal banking sector	Albania, Moldova, Mexico, Brazil, Colombia, Haiti, Nicaragua, Peru, Dominican Republic, Costa Rica	Extend programme to non-receiving families	Good, but market demand for financial literacy is still unattended
		Immigrant resource centres	Information on remittances transfer options, negotiate lower costs with MTOs and speed up transfer, inform on investment opportunities, fund schools construction, social infrastructure	Philippines, Republic of Congo, Tajikistan	Political influence	Fairly good at micro level

Source: Author's elaboration

The various uses of remittances suggest the diversity of immigrants' priorities and interests. This provides input for integrating those interests within broader strategies of development. Immigrants and families' interests on setting up businesses, purchase real estate, acquire durable goods, invest on capital goods, and support households' food consumption, education and health spending (in both rural and urban areas) might indicate their eagerness to support social and economic development projects. State support in those sectors can leverage the finance potential of remittances with policies to scale up local and regional development projects and effectively merge local development interests with broader developmental goals.

Migrants are likely to participate in larger investment programmes that can boost their access to income-producing assets and other entrepreneurial interests. The study of 71 developing countries by Adams (2008) concludes that the level of per capita remittances received by a country is positively related to investment returns at home. In all versions of the remittance model presented, all of the coefficients measuring real interest rates at home are positively and significantly related to the level of per capita remittances received by a country. In this study, countries with more competitive real interest rates receive more per capita remittances.

On the whole, empirical evidence suggests that migrants' interests in sending remittances to families can intersect with larger national goals to boost both economic and social investment. In this sense, the next sub-section assesses the feasibility of a national development bank to support the convergence of both immigrant and national interests, and leverage the use of remittances from individual to local, regional and national development projects.

A national development bank to harness immigrants' interests

Strengthening or creating a national development bank to harness remittances' development finance potential within a national development strategy framework can thus be appropriate, as much as developing links with regional and multilateral development finance. Central banks can also require private banks to deposit part of their reserves (10-15 per cent) in a national development bank, with the objectives of a) to channel the liquidity surplus generated by remittances into development projects, b) to support capital formation of the national development bank, and c) to invite private banks to be partners of development projects.

More specifically, a national development bank would serve to:

a) Support institutional building at the local and regional levels in the economic, financial, educational, and health sectors to stimulate a higher multiplicative impact of remittances. More specifically, the bank should support “development community” projects by developing local networks in which small and medium firms, financial organizations, health centres, schools and families link each other to exchange and leverage the use of resources with enhanced services of finance, education, health services, and labour.

b) Harness the extra liquidity provided by remittances flows for investment in economic and social development, giving access remittance-receivers and non-receivers to investment in public projects of infrastructure (electricity, roads, railroads, public transportation), tourism, agriculture, and small businesses (clothing, gas stations, car repair and assemblage).

c) Support development finance and reduce its unequal access by mobilizing internal and international resources, private and public. In the context of remittances, the bank will strengthen its links with multilateral development institutions and support the implementation of remittance investment projects.

d) Develop products and services for investment in public infrastructure, teaming with the private sector. The bank should ensure the participation of private banks by offering subsidies or lower interest rates to finance immigrants’ projects in agriculture, health, education and transport and communication projects. While investment in public infrastructure should be in tandem with national development priorities, these should be flexible enough to merge national with local and regional development priorities.

Multilateral development banks can support countries by developing ties with national development banks. In dialogue with governments' priorities, these banks can support financing for community and regional projects, including productive activities that use remittances as finance. They can help to improve the capacity development of communities and harness the strengths of both private and public sectors by identifying priority areas, creating joint-products, crafting appropriate incentives and responsibilities, and setting up the timeframe for the achievement of goals.

A few regional development institutions have already accumulated experience on remittance projects by sponsoring, with various degrees of progress, investment projects to increase remittances flows and channel remittances more effectively toward investment and development. A summary of their involvement are presented below:

Inter-American Development Bank

For the past eleven years, the Multilateral Investment Fund (MIF), an organ of the Inter-American Development Bank, has used primarily technical cooperation grants to direct projects to increase the flow of remittances and improve their development effectiveness. The programme has focussed on housing, policy and regulatory frameworks, banking the unbanked, productive investments, financial education and entrepreneurship training, and research and knowledge dissemination.

In remittance-receiving countries, institutional capacity, commitment to working with low-income groups, existing infrastructure, IT sensitivity, regulatory frameworks and credibility have been important factors for the progress of remittance projects. Larger institutions (e.g. Banco Solidario) with broader outreach such as many points of service and branch offices were more successful in negotiating with remittance-transfer companies, which often look for economies of scale. Cooperatives are important for having rural outreach, low operating costs, and trust of their members, although institutional strength was often needed in these organizations. Development of linkages with local networks, federations and national development banks helped to develop remittance services in a greater number of organizations, while the funding of market studies and financial innovation studies served to create innovative financial products.

IT capacity was useful for tracking client preferences, analysis of risk factors to loan applications, communication between branches across borders and between allied entities; demonstration of products to potential clients (e.g. houses for sale), tracking of loan application process, acceptance of payments on loans, and for allowing clients to access their accounts. Surveys and research and dissemination of this information through conferences, seminars, and press releases have raised the profile of remittances in policy debates. IT capacity has contributed to the decrease in the cost of remittances and a better understanding of remittance senders and recipients.

There were problems in measuring results. In some projects, there was no indicator that measured whether remittance families were accessing other financial products (i.e. banking the unbanked) even though this was the goal of the model. In other cases the indicators were unrealistic, either overly optimistic or established without much coordination with the executing agencies, which were not able to measure with existing systems (Inter-American Development Bank 2010).

Asian Development Bank

For the past fifteen years the Asian Development Bank (ADB) has sponsored in-depth studies on remittances flows to find out the main patterns among countries of the region, including characteristics of senders and receivers, main uses, extent of migrants' use of formal channels, costs of transfer, regulatory frameworks, and the potential of remittances to reduce poverty and enhance economic growth. The main objective is to develop a technical assistance framework to support remittance programmes that can boost financial literacy and leverage the use of remittances for investment purposes (Vargas-Silva et al. 2009)

For the first time, in January 2011, the ADB, with assistance from the Government of Japan, launched a remittance investment project to provide safe and affordable remittance services to Bangladeshi migrant workers and their families. The project will fund remittance and financial literacy training and an awareness campaign to provide guidance to returning migrant workers on investment products and employment opportunities. The goal is to help each household save, or invest, an additional $300 annually.

A $2 million grant from the Japan Fund for Poverty Reduction will be used to fund technology linking microfinance institutions and banks. Along with the ADB-administered grant, the Government of Bangladesh is contributing $29,000, with banks and microfinance institutions providing nearly $386,000, for a total cost of over $2.4 million. The Ministry of Finance is the executing agency for the project, which will run to 2013. The Bangladesh Bank (BB) will implement a US$1.2 million component of the project to assist banks and financial institutions establish a convenient network for quick disbursement of remittance. Another component of the project will cost US$ 0.80 million, which will be spent by the respective ministry for motivation and awareness building programme for potential migrant and remittance earners.

The goal is to give at least 20,000 rural migrant households access to formal remittance services for the first time. By using debit cards, point of sale terminals and other innovations, people living in remote areas will be able to send and receive funds through the formal banking system.

Remittances are Bangladesh's most important source of foreign exchange, with about 300,000 people a year going abroad for work. Formal inflows are estimated to reach $12 billion in 2011, playing a vital role in rural spending on food, housing, education and healthcare.

African Development Bank

Although there are not remittances programmes implemented yet, this institution has strengthened partnerships with multilateral development organizations and official development agencies from some developed countries to enhance the study on remittances and their potential as a source for development finance. The flagship report prepared by the Migration and Remittances Unit of the World Bank and the Development Research Department of the African Development Bank pays attention to the potential role of remittances in economic development (Ratha et al. 2011). Both institutions are working in close collaboration with African governments, private sector, diaspora associations, and other stakeholders to encourage the mobilization and effective utilization of remittances.

An initiative launched in 2007 under the Africa–EU Migration, Mobility and Employment (MME) partnership is to use the African Guarantee Fund (sponsored by the African Development Bank and the Government of Spain) to increase access to finance for small and medium enterprises.

More broadly, in October 2009 the African Development Bank group, the French government, and the International Fund for Agricultural Development (IFAD) established a multilateral trust fund. The fund, to be managed by the African Development Bank, has an initial capital of more than €6 million and aims to provide finance to enhance knowledge on African migrant remittances through thematic and sectoral studies; improve regulatory frameworks and transfer conditions, with a view to reducing transfer costs; provide financial products that meet the needs of migrants and their families; and encourage the African diaspora to invest in individual productive initiatives in their countries of origin.

The African Development Bank, in partnership with the European Commission, the World Bank, and the International Organization for Migration, are supporting the African

Union Commission to create the African Remittance Institute (ARI). ARI aims to strengthen the capacities of African governments, banks, remittance senders and recipients to better use remittances as development tool for poverty reduction and to achieve less costly, faster, and more secure remittance flows to Africa. Under the guidance of the African Union Commission and the European Commission, the programme is funded with €1.7 million contributed by the European Commission and administered by the World Bank. Activities will include technical assistance, training, education, and dissemination of data. The preparatory phase project (both technical and consultative) started in 2010.

In general, although internal and external hurdles might exist for strengthening national development banks, the reality is that for the past twenty-five years many governments in remittance-receiving countries have not done much for supporting, channelling and leveraging the use of remittances for development purposes. They have often indulged on remittances' sheer magnitudes and used them to reduce fiscal and balance of payments and support misguided economic policies e.g. Philippines, Guatemala. A reduced policy space due to external and internal group/institutional pressures might be true in some cases, but governments need also to develop leadership in exploring policy alternatives that can support families' use of remittances not only as 'cash and spend' instrument, but as a way to provide them with access to finance and better public goods (e.g. education, health and housing).

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