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Background Paper
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Roundtable 2
Remittances and other diaspora resources: increasing their net volume and development value

Session: 2.2
Increasing the micro-impact of remittances on development

Coordinating Partner: United Nations Development Programme (UNDP)
Partners in the preparation of this session : Government of Mexico; Government of Norway; Government of Senegal; International Fund for Agricultural Development(IFAD**)**
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Task force coordinator: Roméo Matsas

Session panel:

Chair/moderator: Mr. Carlos Gonzalez Gutierrez – Executive Director of the Institute of the Mexicans outside the Country
Speaker: Mr. Arun Kashyap, Advisor, Private Sector Development,
Capacity Development Group/Private Sector Division, UNDP
Discussant: Manuela Ramin-Osmundsen, Project Coordinator for International Migration and Development, Norway
Discussant: Ms. Anne-Françoise Lefevre, Adviser to the Chairman of the Management Committee, World Savings Banks Institute
Rapporteur: Mr. Seringe Dieye, Director of Chancery, Ministry of Foreign Affairs, Senegal

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1. Executive Summary

The root causes of international migration derive from the major economic, demographic and social disparities as well as conflicts, climate change and environmental degradation or disasters. Remittances constitute the most tangible contribution of migrants to poverty alleviation. A better understanding of how remittances are used would inform public policy and development interventions for migration and financial services as well as for enterprise development, livelihoods strengthening and provisions of other basic services. Equally important is to ensure that the money reaches rural areas as well as other areas where large populations are still unbanked and do not have access to diverse financial goods and services that can improve their quality of life. There are many ongoing initiatives at this time undertaken by different countries, development agencies and institutions, but the learning is evolving. The paper argues that countries of origin and destination have to work together with multilateral organizations, private sector, diaspora and other stake holders to create options, tools and incentives to maximize the development benefits of remittances. These incentives and tools can be linked to the transfers themselves (e.g. through savings, credit, micro-insurance and micro-pension schemes) or focus on mobilizing savings generated by remittances towards productive investments (made by the migrant, the recipients or a local entrepreneur). This would buttress streamlined and gender responsive remittances policies and regulations, and strengthen capacity development at human, institutional and system-wide levels. These collaborative efforts can also catalyze public private partnerships that can lead to innovative demand based products and services for meeting the needs of the poor people.

2. Introduction

It is difficult to envision the equity aspects of globalization without migration as an integral component of the analysis. The hope to find suitable employment to improve their own and families' lives is the overwhelming motivation to migrate for millions of people. Also, migration, both forced and voluntary, is a frequent response to situations where livelihoods are threatened by insecurity, institutional weakness, ethnic and religious discrimination, climate change or environmental degradation and repeated disasters[1]. With the number of migrants worldwide now reaching almost 200 million[2], their productivity and earnings are a powerful force for poverty reduction. In most destination countries the number of women migrants has grown at a faster rate than men; currently women constitute almost half of all migrants worldwide, an estimated 95 million[3] and in some countries they account for up to 80% of the total[4]. Migrants typify remittances; remittances are the financial counterpart to migration. Many migrants benefit from their experience that also results in a vast increase in the money people send to their families.

Remittances represent an important way out of extreme poverty for a large number of people[5]. In terms of poverty reduction, rural areas in developing countries tend to benefit the most given much of the world's migrants are drawn from these areas[6]. Even tough they can potentially impact development adversely by discouraging productive work[7], research has found that international remittances have a strong impact on reducing poverty[8]. Migrant remittances are more stable than direct financial investment (DFI) and do not decline even in conditions of instability and poor governance[9]. They are also more evenly spread among developing countries than capital flows[10].

Remittances fundamentally differ from other financial flows in that they are based on social ties and networks of responsibility and affection. They are a financial manifestation of a complex network of relationships that are established between migrants, their families, and communities of origin and therefore, there is a need to examine their economic, social, political, and cultural consequences. Nevertheless, although a private transaction, and even though migrant remittances have mainly been a family affair, economists now tell us that the remittances spent locally have "multiplier" effects that lead to increasing gross national product. The size of the multiplier effect depends on whether remittances are received by urban or rural households[11] – the latter tend to consume more domestically produced goods and thus generate a higher multiplier effect[12].

However, migration and remittances by themselves do not enable any country to escape poverty and are not an answer to alleviating global poverty; the structural problems behind persistence of poverty must be addressed by the national governments. International community can assist by working in partnership with the national and local governments. Increasing remittance inflow should not reduce receiving governments' development and social protection responsibilities nor be confused with developed world's ODA responsibilities. It is vital that remittances, DFI and ODA work hand in hand so that the policy makers do not lose sight of sustainable human development, social cohesion, cultural plurality, and human rights in both sending and receiving countries. At the same time, the governments of the countries of origin as well as the countries of destination have to jointly ensure that enforceable policies are in place to protect migrants. The challenge is to get the balance right.

3. Recent trends: micro-impact of remittances

For millions of individuals, remittances are a significant part of family maintenance and support the daily needs of families. In Armenia, for instance, remittances make up 80% of household incomes on average and appear to go to some of the most vulnerable households[13] thereby reducing inequality[14] while in Tajikistan, they keep many struggling families above the poverty line and reduce the stress caused by a lack of domestic job opportunities. Similarly, remittances from Comoros living abroad are considered a lifeline for impoverished communities at home[15]. In terms of its dependence on remittances per capita, this Indian Ocean archipelago ranks second after Eritrea in the African continent.

Even when the received amounts are spent on consumer goods, remittances may stimulate development[16]. A study of Mexico points out that each dollar of remittance generates three dollars of spending power[17].

Propensity to save out of remittances is also important (almost 40%) and remarkable consistent across studies; however, the investment is mainly in housing and land, and secondarily in business activity, including machinery and shops.[18] Some research highlights that remittances account for nearly twenty percent of the capital invested in micro-enterprises in urban Mexico[19]. In Egypt, the returning migrants in the late 1980s set up a number of enterprises, in greater Cairo, using funds brought back from abroad[20]. Additionally, they have a positive impact on economic growth by serving as insurance to alleviate risks associated with new enterprises.[21]

Generally speaking, there is a lack of adequate analysis of the migration-remittances-development linkage in the countries of origin and more empirical research is needed on how to leverage the development impact of remittances. Also, at present remittances do not normally appear as a component of national development strategies in receiving countries.

3.1 *Reducing vulnerability*

Remittances are crucial for households in conflict and post conflict States. For instance, in Haiti, remittances represented about 17% of GDP in 2001, and in Somalia[22], they accounted for up to 40% of the GDP in the late 1990's. In Somalia with a majority of the population living on less than a dollar per day, the injection of hard currency through remittances enables the country to purchase staple food imports and have a “multiplier” effect on the local economy. However, humanitarian actors often fail to consider remittances in recovery assessments and designing response strategies.[23] In the months following the Tsunami, the Sri Lankan Bank recorded a substantial increase in remittances; also increasing remittances flows in Bangladesh have become a vital element in country’s resilience to monsoon floods. Following the 2004 Hurricane Ivan in Grenada, the World Bank estimated the diaspora assistance, in the form of wore transfers and goods, sustained the recovery of many families on the island[24].

3.2 *Highlighting gender equality*

The existing work relating to migration, remittances and development has mostly examined “migrants” as a gender-neutral category. The experience for women who migrate or stay at home can be either positive or negative and it is influenced by specific circumstances. Migrant women can improve their position in their families and communities and have the opportunity to be independent and make decisions. Women who stay at home and receive remittances can gain greater control overall household budgets and establish female-headed households[25].

Any attempt to address the migration-development linkage cannot preclude the impact that the new economic role played by migrant women and/or female-headed households have on gender roles and the dynamics of the households, communities, and society in general. However, the remittances flows are neither differentiated in terms of gender nor is the disparate impact of remittances on the lives of male and female migrants at the household level or at the local level been considered. The amount of money sent by migrants, the mechanisms of its transfer, and the mode of its utilization by the families in the countries of origin are conditioned not only by the market economy, but also by the political economy of the household and the ensuing power dynamics. There is some evidence that migrant women and men have different remitting patterns and tend to prioritize different types of consumption, investment, and saving. [26]

At the same time, women, as recipients of remittances need productive opportunities to effectively manage the additional income and be empowered to assume greater responsibilities including making financial decisions ranging from provisioning health and educational services for the family to reducing household vulnerabilities in times of shock and stresses. Women often have limited access or lack of knowledge about the availability of fiscal incentives, skill building opportunities and simplified procedure for starting businesses that can channel remittances into entrepreneurial activities. It is therefore vital to upgrade women’s skills and enhance equity in access to capital and financial resources and services to maximize the micro-impact of remittances for women and therefore the economic development of communities in the countries of origin.

Accordingly there is a need for public policies and capacity development both at the local level and national level to support the effective contribution of remittances to gender-responsive local development. Such policies should notably facilitate, catalyze and enhance access to inclusive financial mechanisms for advancing equitable and sustainable human development.

4. Demand from the stakeholders -An assessment of needs

A number of global and regional multi-stakeholder consultations led by UNDP[27] underscore the significant interest of all stakeholders in (i) better understanding the demand for and influence of remittances on the productive base of a local economy, (ii) catalyzing on the ground activities in a learning-by doing framework (iii) putting in place functional policies and capacity development strategies to support the positive impact of remittances on income generation, strengthening sustainable livelihoods and entrepreneurship creation.

As a starting point, it is vital to integrate migrant remittances in national development plans (NDPs) and strategies through, for instance Poverty Reduction Strategy Papers (PRSPs) and MDG-led NDPs. Such a policy link would not only mainstream the development potential of remittance in the wider development agenda but would also enable the governments to mobilize technical support from international organizations and donors to strengthen this linkage.

Research points out that, in addition to consumption choices[28], remittances have promoted investments in real assets including building schools and clinics[29], rather than formal sector financial instruments.[30] This may be considered as a reflection of poorly developed financial markets and institutions, inadequate access to the financial options and services by the remittance-receiving families as well as a weak enabling environment, limited capacity and poor economic governance[31]. The challenge for governments willing to maximize the multiplier development impact of remittances, therefore, is to develop public policies for creating and implementing innovative financial products, markets and mechanisms at the local and national levels in a framework that emphasizes equity and supports gender based analysis. Enhanced access by the poor population to inclusive and gender responsive financial products and services (consisting of - but not limited to - savings, credit, insurance and pensions) when supported by policies and social institutions that reduce market barriers and transaction costs can promote equitable growth. Additionally, these interventions together with capacity development at human, institutional and system-wide levels would reduce vulnerability of the poor population by assisting them in creating assets, promoting entrepreneurship, improving service delivery and strengthening livelihoods. It is also highly likely that an increase in suitable employment opportunities and the promise of a higher and a better quality of life in the home country would be a disincentive to migrate by necessity, an issue of particular importance in regions with high out-migration potential.

The private sector is an important change agent for creating new financial products, services, influencing consumption and investment opportunities, and tradeoffs for remittances In general, the private sector (a) recognizes the demand for innovative financial products linked to remittances, and (b) that such products while contributing to the business of the companies are also supportive of the development objectives. For instance, the development-added products can help the private sector to differentiate their product offering, gain new customers and improve brand recognition thereby strengthening the bottom line. However, the private sector, in many cases needs to improve its understanding of this new market, develop new products and/or adopt products that are tailored to the needs of this consumer segment. In some cases the transaction costs of strengthening/creating a new market may be large and may require private public partnerships for their commercial offerings. There is thus a significant potential for governmental authorities to work in partnership with multilateral/bilateral institutions, the private sector, civil society and community based organizations to introduce greater efficiency in processing remittances transactions and highlighting incentives that would catalyze introduction of equitable policies at the national levels.

5. Lessons learned from past and current policies and programs

The impacts of remittances are not just economic but also social and cultural. Migrants and non-migrants, even if separated by physical geographic space, are part of the same social space. The multilayered social space ranges from local-to-local connections to ties between States, regions, national governments or even national religious institutions. Currently, more and more people continue to earn their incomes and raise their families in their countries of origin while putting down roots in the countries of destination. Consequently development in the home country is to a certain extent also linked to development of the immigrant community in the host country. The issues are trans-national and trans-national problems demand trans-national solutions. For maximizing the micro impact of remittances on development, it is vital to undertake learning-by-doing pilot activities to better understand remittances in terms of volumes, transmission mechanisms, remitters' preferences, local impact, demand for products, etc. based on the complex network of social and cultural relations.

The practical on the ground efforts to link remittances to development at the micro level are rapidly progressing even though they are relatively speaking, in their early life. There is clearly a support from all stakeholders ranging from the governments of both the countries of origin as well as the countries of destination, diaspora, civil society and the private sector. Efforts amongst the various actors need to be coordinated to ensure that migration and remittances are an integral component of national planning strategies and the emerging activities build upon the lessons from the ongoing initiatives.

5.1 *Policy, Regulation & Enabling Environment*

There are significant policy, regulatory and market barriers that impede the potential utilization of remittances for development including at the local levels. The private sector is an important change agent for creating new financial products, services, influencing consumption and investment opportunities, tradeoffs for remittances and promoting financial inclusion. For remittances to function as a platform for inclusive finance, all institutions that are able to reach the recipients should be able to participate in the market. National policies should therefore encourage level playing field in terms of incentives and regulations to both banking and non-banking institutions so as to increase competition that would lead to a greater choice of products for customers and ensure efficiency in the creation of inclusive financial products and services.

In addition to providing an enabling environment and institutional strengthening in recipient countries, it is important to strengthen the deepening of the financial sector as well greater recognition of the non bank remitting institutions. This intervention would enhance the benefits of remittances and access to equitable financial services especially in crisis and post crisis countries where remittances are a critical resource and the private sector is unable to operate efficiently on its own.

5.2 Capacity Diagnostics & Capacity Development

There are significant capacity challenges that also need to be addressed. The lack of capacity is a serious bottleneck to operationalize the poverty reduction strategies and this becomes even starker if the issue of migration and remittance is included as an intrinsic component of PRSPs. Also, while the evidence demonstrates that at least some microfinance institutions (MFIs) can provide low-cost money transfers and are using these services to bank the unbanked, the number of MFIs that have successfully entered the market to date, particularly on a significant scale, is relatively limited. In entering the market, MFIs face a series of challenges related to institutional capacity. Capacity development is required for the private sector including the MFIs and banks that need to understand the rural sector as well as those with unmet needs of banking services. There is also an opportunity and a need to work with traditional banks to achieve more significant scale[32].

5.3 *Strategic/innovative products design and delivery*

The role of community-based financial or economic institutions such as rural banks, thrift banks, cooperatives, postal savings banks, microfinance institutions in linking remittances to development requires a strategic analysis. They service millions of financially underserved sectors of society, yet are not fully integrated to the financial system. Each of these sectors has self-regulatory mechanisms through networks that lay criteria for good governance. Interventions from the government should be in the form of support for their operations and projects that will improve their interconnectivity, and opening windows for programs initiated from these sectors, in linking migrant remittances to development.

Local financial institutions need to be supported to creative innovative and non traditional products and financial instruments to meet the demand from recipients of remittances in the communities. At the same time there is a greater need for financial intermediation in rural communities to assist those considered unbankable and receiving remittances to enter the investment arena. By facilitating and mediating with the financial community to develop their capacity as well as for the users with unmet needs, partnership at meso level can catalyze the availability of innovative and non traditional products to meet the demand from remittance-recipients[33]. MFIs should also have the capacity to guide the communities to use its resources for strengthening gender based entrepreneurial and livelihood opportunities.

In addition to micro loans, the idea of linking insurance with remittances is gaining interest and needs greater creative support. Also, providing an opportunity for safe, secure savings is more effective in the long run than encouraging more debt. It is observed that with the right products and investment opportunities, remitters are likely to invest rather than only meet consumption needs. In fact, windows for funding or institutional support could link CSO or microfinance institutions that work with migrants with their programs for savings mobilization, investments, credit access, or enterprise development in migrants' communities of origin. It could also be in the areas of new products development, capability building of microfinance institutions, particularly on linking remittances to enterprise development and capability building for NGOs engaged in service delivery to migrant families.

5.4 *Public-Private and Multistakeholder Partnerships*

Public-Private Partnerships (PPP) can help to ensure a smooth transition from informal remittances to formal remittances and providing increased access to remittance based financial products that are inclusive and address the needs of the poor and the disadvantaged population.. PPPs can help to manage risk with offering of new products and encourage the private sector enter new markets[34]. PPPs can also encourage the private sector to emphasize longer term rather than short term planning, improve trust and confidence to cooperate between various stake holders including governments, private sector and the civil society, improve outreach efforts through capacity development at human, institutional and systemic levels and create mutually beneficial win-win scenarios. .

Bilateral and multilateral organizations can assist local governments and work with regulators to ensure consistent and appropriate regulation that creates an enabling environment for remittances and allows companies, both banks and non-banks, to expand their offering. Such efforts should involve the Private Sector. Multilateral agencies and private sector should partner and also involve civil society, wherever necessary to enable the development of innovative new commercially viable products that can help to further the development impact of remittances – viz., savings products, improved credit availability, insurance and other markets based safety net mechanisms, and investment opportunities.

While trans-national social analysis can bring the micro, meso and the macro perspectives together, there is a need to understand through learning-by-doing the multiple layers of this complex analysis and develop innovative tools and tool kits. This would not only ensure that the development tools available to the international development community (such as the Poverty Reduction Strategy Papers, the United Nations Development Assistance Frameworks and the MDG-led NDP) include migration, remittances and development but also assist in synergizing the work of various institutions and agencies on these issues.

6. Proposals for action

Drawing on the lessons of the ongoing activities, the following suggestions to create options, tools and incentives to maximize the development benefits of remittances at the micro-level are proposed for consideration and discussion:

6.1 ***Policy, Regulation & Enabling Environment***

- Countries of origin and destination have to work together with all stakeholders including multilateral organizations to encourage the inclusion of migration and remittances into MDG-led NDPs[35].
- Remittance receiving countries should remove barriers and create incentives and structures favorable for the creation of market-led development initiatives at the home levels[36].
- Both the countries of origin and destination should work together[37] to encourage policies for greater participation in the money transfer market and level the playing field for both banking and non-banking institutions to increase competition and provide greater choice for customer.
- Promote legislation, policies and practices for gender based development within the framework of human rights and national entitlements that will provide access to goods and services include financial services and livelihood opportunities particularly for female-headed remittance-recipient households and women who migrate[38].
- Promote policies and practices that attract and use collective remittances as well as diaspora and Home Town Associations to assist in addressing social, infrastructure and economic projects within their home country[39].

6.2 ***Capacity Diagnostics & Capacity Development***

- Support governments to develop human, institutional and system-wide capacity to manage and facilitate the flow of migrants and remittances for the benefit of poor people, national economies and social and political improvement[40].
- Develop capacity and skills for migrants' financial literacy to enhance access to inclusive products and services for businesses and entrepreneurship to grow and thrive[41] particularly at the local level.
- Home town associations (HTAs) are small and operate on a voluntary basis. Investment in human capital is the greatest challenge that impedes their effectiveness. Success of HTAs would depend on available capacity to become more organized, to gain more knowledge, to invest in human capital and to exchange experiences with other parts of the world[42].
- Develop capacity and trust between the financial institutions, migrants and the recipients of remittances to ensure that transfer remittances also become active in enhancing opportunities for strengthening sustainable livelihoods[43].
- Develop national capacity for data-gathering, including scaling up its ability to collect data for informal flows of remittances as well as gender disaggregated data on remittances resource flows at the country level[44].

6.3 ***Strategic/innovative products design and delivery***

- Promote incentives for private sector to understand demand for innovative products from remittance recipient households and develop remittances related products (viz., savings, credit, insurance, pensions, cross border mortgages, etc.) to meet the need.[45]
- Remove barriers to the use of latest technology to design and distribute innovative and market-viable financial products and make them accessible to migrants and their families in the home country – so as to reach more people in need of such goods and services[46].
- Support savings and retail banks including postal savings to work with microfinance and other banking institutions to enhance access to financial services to the poor people while bridging remittances with inclusive and viable products at the local levels[47].

6.4 ***Public-Private and Multistakeholder Partnerships***

- Promote private public partnerships to advance understanding and consumer literacy of inclusive financial products and services among the poor and the disadvantaged and for removing barriers to developing remittances based new products market and products and/or adopt products that are tailored to the needs of this consumer segment.[48].
- Develop PPPs to offer options, tools and incentives to remittances senders and recipients to support local infrastructure development for delivery of basic services including education and health at the local levels[49] and business start-ups.
- Mobilize partnerships to support the expansion and implementation of local development projects involving remittances senders/recipients and other stakeholders (private sector, non governmental organizations, MFI, bilateral or multilateral agency).

6.5 ***South-South cooperation***

- Support South-South cooperation to meet the critical need to exchange lessons and best practices from countries that have been able to successfully leverage remittances for development purposes. It would be useful to obtain accurate data and information and share good practices and disseminate successful solutions to governments for designing appropriate policies, to the bilateral or multilateral agencies willing to support creative solutions, and to the private sector that is eager to contribute to creation of new products and services.

6.6 ***Knowledge Networking***

- Maintain and nurture **a network of knowledge and a community of practice** among stakeholders to maximize the development impact of remittances. This requires a human development approach as the MDGs cannot be achieved through financial flows alone.

- There is an expressed demand from the practitioners in the area to develop state-of-the-art assessment frameworks, diagnostic frameworks and tool kits and methodologies for making migration and remittances work better especially for poor people. Documenting lessons, learning from and scaling up successful country level experiences and good practices - particularly in Least Developed Countries (LDCs) and for recovery in countries affected by political crises or natural disasters – will significantly contribute to our knowledge to maximize the potential benefits of migration and remittances to manage risks, reduce vulnerability, strengthen sustainable livelihoods and reduce poverty.

(June 2007)

NOTES

[1] Sub-Saharan Africa has witnessed significant flows of "forced" migrants including internally displaced persons caused by political unrests, population pressures or harsh natural conditions as drought and environmental degradation. Henry, Sbaine and Bilsborrow, Richard. "How environmental migrants choose their destination in Burkina Faso?" Abstract submitted for the XXV International Population Conference of the IUSSP (http://iussp2005.princeton.edu/download.aspx?submissionId=50281)
[2] The report of the Secretary-General on *International Migration and Development* (6 June 2006), states that international migrants (nearly 191 million), constitute at least 20% of the population in 41 countries; International migration – share of a country's population living abroad (Adams, R.H.; Page J. International migration, remittances, and poverty in developing countries. Policy Research Working Papers. The World Bank. 2003).
[3] State of world population 2006, A Passage to Hope, Women and International Migration, UNFPA, New York.
[4] UNDP (2004): Human Development Report. United Nations. http://hdr.undp.org/reports/global/2004
[5] Adams, R.H.; Page J. 2003. Ibid; on average, a 10% increase in the share of international remittances in a country's GDP will lead to a 1.6% decline in the share of people living in poverty. Notwithstanding the lack of clarity regarding the impact of remittances on equity and income equality, remittances enhance household incomes and can significantly impact poverty reduction. In a recent study using panel data on 74 developing/transition countries, Adams and Page (2003) find that remittances have a strong, statistically significant impact on reducing poverty.
[6] A significant flow of remittances to the Dominican Republic go to rural areas. Orozco, Manuel. "Remittances, the Rural Sector, and Policy Options in Latin America." Migration Information Source, Migration Policy Institute, 2003
[7] Llorca, Juan Carlos, "Living off immigrant money sent home from U.S., young Guatemalans don't want to work." Associated Press Financial Wire. May 29, 2007.
[8] World Bank studies indicate that remittances cut the poverty rate by 11 percent in Uganda and 6 percent in Bangladesh and raised education levels in El Salvador and the Philippines
[9] http://isim.georgetown.edu/pages/RCRCC.html
[10] Ratha, Dilip. Workers' Remittances: An Important and Stable Source of External development Finance in Global development Finance. 2003.
[11] In some isolated rural areas, most of non-farm activities depend largely on migrant money and most economic activities serve the local market. Van der Geest, Kees. "Local Perceptions of migration and livelihood in Northwest Ghana: the home community's perspectcive." Paper presented at the CERES Summer School. The Hague. 27-30 June 2005.
[12] Adelman, Irma and J.E. Taylor. 1990. "Is Structural Adjustment with a Human Face Possible? The Case of Mexico." Journal of Development Studies, Vol. 26, pp.387-407
[13] USAID Armenia. Task Order #PCE-I-820-98-00012-0. October 2004. Remittances in Armenia. Size, Impacts, and Measures to Enhance their Contribution to Development
[14] USAID Armenia. Task Order #PCE-I-820-98-00012-0. October 2004. Remittances in Armenia. Size, Impacts, and Measures to Enhance their Contribution to Development
[15] IRINNews.org. UNOCHA. Comoros: Remittances-funding luxuries rather than development. Tajikistan: Remittances – a tool for development. May 2005
[16] Nearly 80 percent of the remittances to Latin America are spent on consumption; that leaves nearly $12 billion for investment. At the same time consumption among the poor is good for the economy not to mention for improving their quality of life.
[17] www.economist.com/world/na/PrinterFriendly.cfm?Story_ID=1352810
[18] USAID Armenia. Op Cit.
[19] Woodruff, Christopher, and Rene Zenteno. 2001. "Remittances and Microenterprises in Mexico." Unpublished paper. University of California, San Diego. Cited in Ratha, Dilip, 2003. Op Cit.
[20] McCormick, Barry and Jackeline Wahba. 2002. Return Migration and Geographical Inequality: The Case of Egypt." University of Southampton. Unpublished. Cited in Ratha, Dilip.2003. Op Cit.
[21] Taylor, J. Edward. 1999. "The New Economics of Labor Migration and the Role of Remittances." International Migration 37(1):63-86

[22] A recent survey by UNDP estimates that more than 25% of families in Somalia receive remittances from abroadRemittances into Somalia have in the past helped to avert humanitarian crises. UNDP/The World Bank Somalia, Socio Economic Statistics. Somalia Report No 1. Somalia Working Brief. 2003

[23] www.Somalivoices.com

[24] Savage, Kevin and Paul Harvey. "Remittances during crises: implications for humanitarian response; Briefing paper 26. Humanitarian Policy Group. Overseas Development Institute. May 2007

[25] Van Doorn, Judith. Migration, Remittances and Development. ILO. 2002

[26] For instance, studies of migrant women from the Dominican Republic, South Africa and Sri Lanka have found that women are more likely to send remittances than men and that female Dominican micro-entrepreneurs are more likely to receive remittances than their male counterparts. Ortiz, M. *Microempresas, migración y remesas en República Dominica 1996-1997,* 1997; UN-INSTRAW, *Gender, Remittances and Development: The case of women migrants from Vicente Noble, Dominican Republic*, 2006; International Office for Migration, *World Migration Report 2005*, Geneva, p.35, *Ibid*., p. 55. A 2001 study of Dominican migrants in Spain found that 60% regularly send more than 20% of their income in remittances. In rural South Africa, a study conducted in 2003 found that migrant men were 25% less likely than migrant women to remit. In 2000, women represented 67% of Sri Lanka's overseas workers most of whom worked in the Middle East. That same year, remittances to Sri Lanka from the Middle East accounted for 63% of the total amount of remittances received.

[27]http://www.capacity.undp.org/index.cfm?module=Library&page=DocumentSearchResults&LibraryID=13&SearchText=remittance&DocumentType=&Search=SEARCH; The Potential Role of Remittances in Achieving the Millennium Development Goals – An Exploration**,** 10 October 2005**, NY;** Regional Consultation on Migration, Remittances and Development 27-28 July 2006, Santo Domingo; Private Sector Forum to Explore Linkage between Remittances and Development, September 8, 2006, New York

[28] UNDP Gambia's experience indicates that the pattern of remittances receiving family members to increase their lavish consumption rather than invest the amount as prescribed by the remitter leads to family tensions and can adversely influence the money flow in the country.

[29] Orozco, Manuel 2000. "Latino Hometown Associations as Agents of Development in Latin America." Inter-American Dialogue. June

[30] Albeit this is more common in countries with sound economic policies Ratha, Dilip. 2003. Op Cit.

[31] This is corroborated by the Albanian experience where the absence of suitable policy and governance regime, did not allow remittances in to the country to properly stimulate domestic production. UNDP and Soros Foundation. 2003. The Encouragement of Social-Economic Development in Relation to the Growth of the Role of Remittances. Centre for Economic and Social Studies. Tiranë

[32] Even when the private sector is keen to make remittances a catalytic financial tool, their unfamiliarity with the product and clients, technology and regulation, and the overall context of sustainable human development presents a barrier

[33] Business associations or microfinance associations could also provide some of the meso-level services including business development services.

[34] Such partnerships can assist the private sector by (a) offsetting new products risk for the commercial sector through leveling the playing field, (b) greater access to unreached consumers, (c) introduction of new technology, (d) improving financial and technical education of the consumers and (e) by bringing in private sector entrepreneurial skills in improving financial infrastructure including automation of money markets and setting of service and credit standards

[35] The Spanish Government's Initiative Against Hunger and Poverty (IHP) aims to strengthen innovative financing mechanisms linked to remittances so that they can complement Official Development Assistance (ODA) for meeting the Millennium Development Goals (MDGs). Building upon the Geneva declaration (2004), the IHP created a Technical Group (TG) to better understand innovative financing mechanisms including those that are linked to remittances for eradicating hunger and poverty.
"Moving out of poverty-making migration work better for poor people." DFID Policy paper. March 2007. p12.

[36]The legal framework for MFIs in Senegal and other West African Economic and Monetary Union countries does not facilitate MFI access to the remittances market. An ILO study exploring possible ways in which MFIs can become involved in the Senegalese remittances market, states that one way to improve MFIs participation to the remittances market would be to partner as a broker with the Post Office and commercial banks that have the licenses to deliver remittances in Senegal.

[37] The US and Mexican governments are encouraging migrants to channel remittances through the formal banking system by *expanding and broadening access to capital*. The Partnership seeks to increase the flow of capital to underdeveloped regions of Mexico in part by aiding to lower to cost of sending remittances to the country from the US and support the use of remittances in development projects in Mexico. "Remittances and Rural Development in Latin America and the Caribbean – an IFAD Perspective", Rosemary Vargas-Lundius, IFAD, March 2003

Some of the MFIs in Africa that have penetrated the remittance market in order to reach client groups who are likely to be remittances receivers and are often un- or under serviced by formal financial services include National Microfinance Bank of Tanzania, Equity Building Society in Kenya, and Centenary Rural Development Bank in Uganda. In Senegal, two MFIs are formally involved in the remittances market – l'UNACOIS (Union Nationale des Commerçants et Industriels du Sénégal) and the Djoloff Mutuelle d'Epargne et de Crédit (DJOMEC) to handle international transfers. The *World Migration Report* (2003) relates how three African banks based in Paris have offered special transfer schemes to Côte d'Ivoire, Mali and Senegal with much lower fees than money courier services.

[38] UNDP & INSTRAW are jointly undertaking an integrated development project that explores the role of remittances on strengthening gender responsive local development in Albania, Dominican Republic, Lesotho, Morocco, Philippines and Senegal. The project will enhance gender-responsive entrepreneurship by promoting inclusive financial options to efficiently use remittances for sustainable livelihoods and by building social capital. The project would also address the issue of serious dearth of effective data collection, systematic analysis and management systems that can provide guidance to the practitioner.

[39] As part of such a strategy, the Mexican authorities match the money sent by migrants with local, regional and federal money, in order to build roads, schools and medical centres. ("Mexican migrants' growing influence", Javier Lizarzaburu**,** BBC Spanish American service, May 2004)

[40] Op Cit. DFID Policy Paper, March 2007. p33.

[41] (i)Building upon the Western Union Empowerment Fund, the U.S. Department of Labor has recently awarded a $3.3 million grant to roll the program designed to help immigrants and minorities start, maintain and grow small businesses. The program (roll out in late 2007) will provide valuable tools to the entrepreneur and will seek to create the skills necessary for these businesses to grow and thrive. Ultimately, improving the success rate of immigrant and minority businesses also will improve the success of the migrant and will help lift families from low-income or poverty.

(ii)Multilateral Investment Facility of IDB is funding a project in the Dominican Republic that inter alia 1) aims to strengthen capacity of remittance transfer systems through new technologies that reduce transmission costs; 2) develop new technological applications for transmittal of remittances; 3) improve the ability of the microfinance sector to process remittances; and 4) promote the use of the banking system by remittance recipients.

[42] Equally important is the need for a meso-level interlocutor between the HTA communities and government officials at the local level to help migrant collective groups and local political and economic leaders in the home towns to deliberate the complex issue of designing, supporting, adjusting and promoting remittances projects and products. Capacity is required to enable participatory support organizations to build relationships with businesses for facilitating the process of collective remittances. Simultaneously, skills of the migrant associations must be strengthened to enable them to work more effectively with the interlocutors, organizations and local governments and for holding the meso-level organizations accountable.

[43] Microfinance institutions not only confront legal constraints they have limited institutional and technological capacities that hamper their efforts to capture a market share on money transfers and entrepreneurship creation.

[44] Op Cit. UNDP-INSTRAW project

[45] (i)Following the launch of the first phase of the US$10million Financing Facility by the International Fund for Agriculture Development (IFAD) in partnership with the European Commission (EC), IDB, the Consultative Group to Assist the Poor (CGAP), the Government of Luxembourg and the United Nations Capital Development Fund (UNCDF), projects have been undertaken in Bolivia, the Dominican Republic, Guatemala, Mexico and Paraguay to bring disadvantaged rural communities particularly women into the financial services system by encouraging savings, generating lending, providing health and life insurance services and bringing new, technologically advanced financial services to rural families. In Salvador, the efforts focus on combining family remittance transfers with investment loans, and loans to buy, expand or

modify low-cost housing, including the introduction of basic services. The activities in Mexico also aim to enhance access to mortgages, housing micro credit loans, and house leasing for remittance-recipient households (RRH) through *inter alia* provision of financial literacy courses and information for RRH interested in mortgage financing and incorporation of remittance-specific credit evaluation, and rigorous analysis of the performance of remittance-based mortgages.
(ii)USAID is working with the World Council of Credit Unions (WOCCU), local microfinance institutions, ACCION International in Guatemala, Bolivia, Colombia, Haiti, Nicaragua, and Peru to design credit products for housing, business, or other viable investments, encourage recipients of remittances to save in to a savings account, development of new financial products to improve the credit unions' competitive position in the market and build capacity in the MFIs to draft business plans and increase their access reach very remote rural areas with transfers and bill payment services. It is also working in Nigeria with the framers to develop alternative delivery channels for financial services (mobile banking) in rural areas.
(iii)To serve the needs of the immigrant population in the U.S. and offer a way to start a credit history, MFIC has created Alante Financial (formerly Mi Pueblo) - a network of financial service centers. Alante, which provides a range of financial services to migrants, including small loans, money transfer and insurance, uses a customer's remittance history to determine his creditworthiness, and reports its small loans to remitters to a credit bureau so that customers can build a history. MFIC is providing a full range of services for the immigrant to produce an integrated impact on improvement in the quality of life of the poor and the marginalized population.
(iv) In 2001, the French ministry of Social Affairs and the Ministry of Foreign Affairs initiated the Programme Migrations et Initiatives Economiques (PMIE). It assists migrants from Africa who wish to establish a business in France or in their country of origin by orientating them towards relevant structures in term of training, technical assistance, funding, etc. Within the framework of this programme, a scheme called 'Investissement à distance' was developed to allow migrants to use their savings as a guarantee to obtain loan in order to establish a business in their country of origin. Two West African banks are involved in this project. Interest rates are kept low in order to allow repayments (IFAD).

[46] (i)Global telecom, Philippines has initiated G-Cash, a service to send and receive money and facilitate remittance, with simply a text message including SMS. The facility, which competes with door-to-door system offered by some banks, provides a quick, safe, and easy way to send and receive cash, making it valuable to the proportion of Filipino population that is unbanked. G-cash, by forging strategic alliances with grass roots institutions has not only dramatically increased access to financial services – including domestic and international remittance, phone to phone transfer of cash values, purchase payments, etc. - to meet the unmet need of the low income class, it has also extended the reach and microfinance opportunities for rural banks.
(ii) In South Africa, a joint venture of Y'ello Bank with Vodacom and MTN (both mobile communications firms) announced in February 2005 that it is seeking to target unbanked mobile phone users. That network already has close to 20 million subscribers. The pre-paid business model has several attractions for the poor: it eliminates the need for costly travel to the nearest bank, it can include international as well as domestic transactions, it can reach rural areas, it is a secure and near-instantaneous transfer mechanism, and it allows transactions in small denominations. The key impediments to mobile communications as deliverers of remittance services, however, are security and regulation. Governments must be convinced that transaction processes are secure, both for individual consumers and for the system overall (U.S Agency for International Development). IFAD.

[47] In 1994, the Philippine Postal Savings Bank (PPSB) entered the remittance business with a special remittance service involving the payment of remittances to a specific payee or beneficiary residing/working in the Philippines or in foreign countries.

[48] The Government of Spain is strengthening co-development by linking Spanish financial systems with those of the remittance receiving countries and creating public private partnerships including with the diaspora supporting business enterprises and implementing community based projects. By coordinating the Government's efforts with those of the remittance receiving countries and in partnership with the financial community and the diaspora, Spain plans to undertake a major campaign to create greater trust between the banks, migrants and the recipients of remittances to ensure that banks that transfer remittances also become active in providing credit and other financial services (savings, investments, accessible lines of credit, etc.) in the countries of origin. The national task force while bringing in national coherence will engage in high level dialogue with the governments of the remittances receiving countries to explore opportunities of co-

development for strengthening financial culture and systems and maximizing the possibilities for poverty eradication and meeting the MDGs. During the year, innovative public private partnerships are being put in place to create co development projects. A fund is also being created by the Spanish government with participation of central and local authorities, private businesses and migrant associations to catalyze the financing of innovative pilot projects. Three pilot projects have been launched in Morocco, Ecuador, and Senegal - priority countries for Spanish Co-operation and major recipients of remittances sent from Spain – to meet the objectives of promoting development through remittances based on the above strategy.

[49] (i)Western Union is the only corporate sponsor of Mexico's successful *Tres por Uno* (3+1) program, allowing the program to evolve into the 4+1 program in the State of Zacatecas and the State of Michoacán. The current program allows the hometown associations to receive matching funds for contributions made to approved programs designed to create economic and sustainable job-creating opportunities within Mexico and addressing the roots of the migration phenomenon; namely, the lack of opportunities back home. The program is having a tangible impact in terms of job creation and economic development in areas affected by high levels of migration.

(ii) Another government-sponsored program to channel remittances into business start-ups is *Invierte en México* (Invest in Mexico), launched by Nacional Financiera SNC, Mexico's largest development bank, in conjunction with the IDB and organized groups of Mexican immigrants in the US. *Invierte en México* offers Mexican immigrants the opportunity to invest in their communities to generate employment and foster economic activity through starting businesses such as drugstores, supermarkets, gas stations and restaurants. The program provides business advice and support in developing business plans at no charge to immigrants. The program budget is about USD 2.2 million and is available only in Hidalgo, Zacatecas and Jalisco "Workers' Remittances to Mexico", Business Frontier, Issue 1:2004, Federal Reserve Bank of Dallas, El Paso Branch.

(iii) Several European countries are attempting to not only facilitate and lower the cost of transfers but also exploring opportunities either through processes of co-development or providing fiscal benefits to encourage investments in the countries of origin of the migrants. France, in particular provides tax break benefits to the migrants that are eligible to work in France if they decide to get involved in development projects in 54 selected countries. http://www.outilseco-devdurable.minefi.gouv.fr/directions_services/dgtpe/epargne/compte_epargne_codev.htm. Also the National Mortgage Bank of Greece specializes in accepting deposits and providing credit for the purchase of houses in Greece.