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Remittances and Migration: Some Policy Considerations for NGOs

Introduction: why are remittances an issue for NGOs?

This briefing paper is a summary of some of the main issues relating to remittances and their impact on development. It is designed to inform future areas of potential work and research for NGOs working in the field of development and in particular the role of migrants in development.

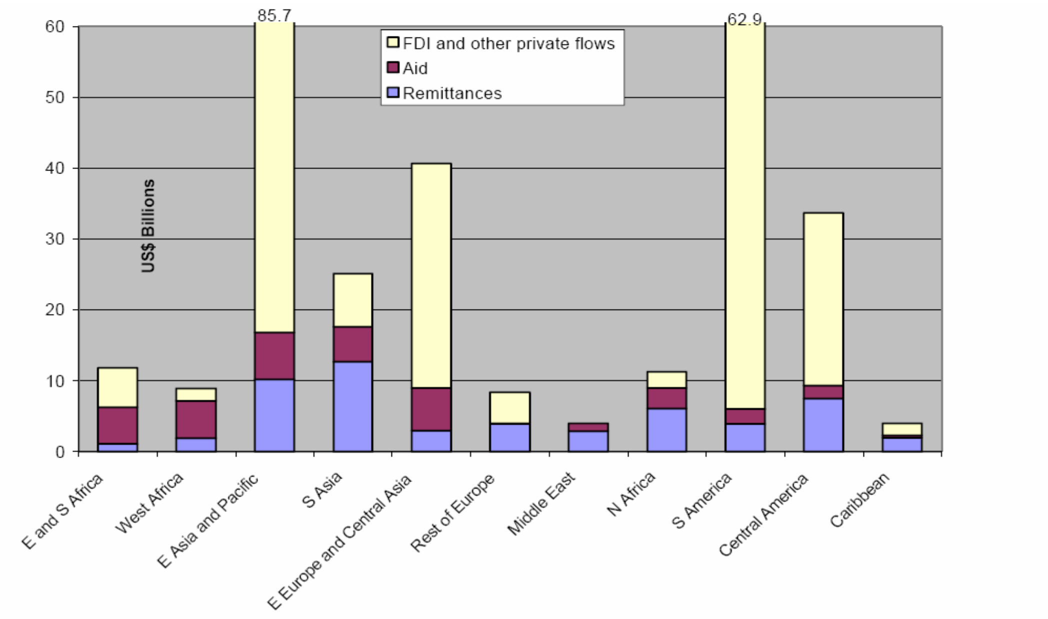
Migration is the movement of people from one locality to another, both within country and across borders. The money that people send home from their earnings once they are working in their destination country is referred to as 'remittances'.

The paper examines the current debates in the theme area of migration and remittances, before touching on issues relating to the developmental impact of remittances and recent policy developments in this area. It concludes with implications for NGOs working in this field and makes some suggestions for future areas of research in this area.

Remittances

Remittances, in terms of volume, now surpass official development aid (ODA). In 2005, it was estimated that at least 232 billion USD were sent globally (by 200 million migrants). This constitutes three times the amount of ODA (Orozco, 2006). This money tends to flow from more prosperous regions to poorer ones, although the flows are uneven, with some areas or communities having more of a migration and remittances culture than others. The table below illustrates differences between regions in terms of reliance on remittances as a source of income (Box 1). Geographical regions with high levels of (estimated) remittance income in proportion to foreign direct investment and aid include South Asia, the Middle East, and North Africa. By contrast, in the 'rest of Europe' and the Caribbean, remittances are equal to other foreign income sources. A comparison of the volumes of remittances with those of aid or foreign investment highlights how citizens are increasingly forced to rely on their own devices in providing for their subsistence and welfare, rather than on support from the state (see Section 2).

Box 1: International resource flows by region, 1994–1999 (current US$ billions)



Box 1:
Foreign Di

Source: Gammeltoft 2002:201

Migration

Remittances need to be understood in the context of migratory processes. Migratory movements date back to ancient times as people have always been crossing borders either in search of a better life, or to flee conflict, natural disasters at home or, increasingly, to escape from poverty. This movement of people is an essential aspect of human development, ensuring a healthy exchange of knowledge, customs and ideas. All nations are associated with the movement of people — whether they be origin, transit or receiving countries. The number of people living outside their country of birth has almost doubled during the last 50 years — increasing to 191 million in 2005 (UN, 2006a). These moves can be either temporary or permanent. Many people send some of the earnings from the work that they find in their new locations to their families in their country of origin — this is known as the sending of remittances.

As well as regional variations (as demonstrated in Box 1 above), patterns of migration and remittances vary according to the gender, age, social and economic status, language skills and destination of the migrant. While acknowledging that this is a highly complex and diverse subject, this briefing paper attempts to provide an overview of the policy implications for northern NGOs of the sending and receiving of remittances, as an important dimension of migration processes.

Development impact of remittances

As the global trend towards drawing back the welfare state continues, household income is increasingly spent on subsistence costs, such as education, housing and health, or the paying off of existing loans. It could be argued that the sending of remittances encourages governments to cut back public services further, and places pressure on households to substitute for such services themselves by using remittance income.

The developmental impact of remittances is a hotly debated subject and one that evolves according to context and shifts in development policy. For example, the 'war on terror', expansion of the EU and media uproar over immigrants from developing countries seeking asylum and employment in developed countries have all influenced current policy in this area.

Social impacts of remittances

In much of the remittances literature, the social consequences of remittances have not been fully considered. In most cases, remittances are savings which migrants, out of their often meagre income, send to their loved ones from whom they are separated (UN, 2006b). This includes extended families and kinship networks as well as immediate families. The social impacts are many and varied, from parents leaving their children to work abroad to the cultural impacts[1] that this can have in both in 'sending' and 'receiving' countries.[2]

Gender

The number of women who migrate has increased in recent years and, through their remittances, they constitute the main economic providers, or 'breadwinners', for their households. Women now account for 49.6 per cent of global migratory flows, though in some countries it could be as high as 70–80 per cent, leading to the 'feminisation of migration' (UN 2006b).[3]

While female migration is often associated with women's empowerment, there are more worrying dimensions to this that are a cause of concern: for example women are much more susceptible to falling prey to the darker sides of migration, such as human trafficking. Often women may gain a stronger voice in society, but not necessarily in the realm of policy as the remittance-influenced changes do not necessarily penetrate to the levels of political decision making. Other possible social impacts of the feminisation of migration are the effects of girls having household responsibilities before coming of age, and the effects on families coping with the separation of their mothers and partners (UN 2006b). It therefore cannot be assumed that women's involvement as the senders of remittances necessarily leads to their empowerment.

Migration of one partner can also lead to the empowerment or disempowerment of the remaining head of household, for example, it can lead to more autonomy for the head of household to make decisions or it can create a dependence on a source of income that is outside his/her control. These social effects may be more significant in terms of development than the actual money value of remittances received. For example, evidence suggests that in countries where men usually control household income and the male head of household migrates, the female recipients become empowered as they assume control of how

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[1] For a discussion of cultural impacts of migratory processes see Wright-Revolledo (2006).

[2] All countries are countries of migration, so we should not be restricted by the dichotomy of 'sending' and 'receiving' countries. For example, since joining the EU, while many Poles have left the country to work in the UK, Sweden and Ireland (where the labour market was not restricted), many people from other countries have moved to Poland to take up work opportunities (UN, 2006b).

[3] The feminisation of migration refers to the rise in specifically female forms of migration, such as commercialised migration of domestic workers and care givers and the migration and trafficking of women for the sex industry (UN 2006b).

remittances are spent (Mahler, 2006). On the other hand, female-headed households worldwide tend to be poorer in economic and social terms.

Remittance economy

One of the associated risks of remittances is that a 'remittance economy' could be created which results in a dependency amongst receivers. This dependency becomes particularly problematic when remittances diminish over time (Farrant et al, 2006) or stop suddenly for reasons linked to economic and political instability, or as a result of migrants establishing new families in their destination country, thereby becoming more estranged from their country of origin. Where the pattern of migration and remittances becomes a more or less permanent arrangement, a development trap may result, as countries in the South overlook self development in favour of simply supplying the labour for dirty, dangerous and difficult (but comparatively well-paid) jobs in the North (Ellerman, 2005).

Household consumption

Studies have found that remittances are mainly spent on household consumption, and that this has a minimal impact on long-term economic growth (Ruiz-Arranz, 2006). Some of this spending at the household level can have negative impacts, such as conspicuous 'luxury' consumption leading to disparity between recipients and non-recipients, fostering local envy and resentment, and resulting in local inflation (Meyers, 1998).

On the other hand, other studies have suggested that this household consumption also has beneficial outcomes — for example, it can generate positive multiplier effects in the local economy (increased local consumption, leading to increased demand for goods and more jobs). As Lopez-Cordova and Olmedo argue, 'Remittances help households move out of poverty, lower mortality rates, and increase educational attainments…remittances are invested in productive activities when profitable' (2006: 18–19). There is also evidence to suggest that there can be a positive correlation between remittances and investments: households receiving remittances spend less on consumption and more on investment (especially social investment, namely education and housing) than non-migrant households (Farrant et al, 2006).

Policy

There is general consensus that measures to reduce the costs of, and barriers to, remittance income are positive moves that will ultimately stimulate the local economy in the receiving country. International development agencies' policy in this field is in line with this as demonstrated by the examples below:

Box 2: Examples of international development policy

DFID's priorities for remittances are to improve access, transparency and choice for remittance senders and recipients, with low costs and greater security (www.sendmoneyhome.org).

The EC and the International Fund for Agricultural Development (IFAD) have developed a funding facility for innovative remittance services (launched March 2006) as part of a programme to promote savings and investments in poor rural areas in Latin America and the Caribbean by trying to ensure ease in sending remittances in a cost-effective way and, whenever possible, linking these to other financial services (savings, loans, insurance) (IFAD press release, March 2006).

Initiatives like the ones outlined in Box 2 are increasing, as aid actors appreciate the volume and perceived efficiency of remittances. Remittances are seen as a positive example of smoothly functioning, precisely targeted income redistribution — something that development aid strives to be. The aid industry is, hence, eager to learn more about global remittances flows. On the other hand, remittances draw attention to the inadequacy of official aid, as they represent a more efficient means of transferring resources than ODA, despite operating against overwhelming odds and personal hardship, and with minimum fuss — and entirely without investment into awareness raising, campaigning, fundraising, training workshops and technical assistance. It could be argued that the very existence of remittances is a sign that development aid is redundant. However, the existence of communities and countries that are reliant on aid would point to flaws in this line of reasoning.

Governments have also recognised the significance and impact of remittances, leading to initiatives to harness and control them (Box 3). Such government initiatives support the argument that remittances can relieve the pressure on states to fulfil their most fundamental functions.

Box 3: Examples of Government policy to harvest remittances

South Korean contract workers were obliged to remit at least 80 per cent of their earnings through the national banking system (Hugo, 2006).

In the **Philippines** in the 1990s, remittances contributed an average of 20.3 per cent of export earnings and in 2000 the government appealed to its citizens overseas to remit more to support its economy (Hugo, 2006).

In some regions, such as **Latin America**, migrants from a particular town or small region sometimes form 'home town associations' (HTAs). HTAs have a political and social role in the host country and are also increasingly serving as a channel for the collective investment of remittances in the home town or state. One of the most successful schemes, in the Mexican state of Zacatecas, involves federal and state governments matching every dollar donated to local projects by HTAs (such as investing in local schools, roads and recreational facilities) (Ellerman, 2005).[4]

'War on terror'

The extent to which governments, international NGOs and other international institutions interfere in remittance systems has been brought into sharp focus by the curbing of remittance flows in the context of the 'war on terror', where stringent controls on money transfers across borders have been set up in order to prevent funding of terrorist activities. Remittance companies have had to comply with new 'anti-terror' regulations, which necessitate expensive investments, including investment in technology in order to ensure compliance with money laundering regulations. At the same time, sanction lists have been expanded resulting in up to 40 per cent of common Muslim names being blocked by standard screening software (Ahmed, 2006). The implications for the Somali and Somaliland economies are discussed in Box 4.

[4] While the Mexican HTAs are held as examples of good practice in terms of government supporting remittances, female migrants are often excluded from decision-making roles regarding how collective remittances should be invested in local development projects (Mahler, 2006).

Box 4: Examples of policies curtailing the sending of remittances

Somalia and the 'war on terror'

Remittances constitute the lifeblood of Somalia — a collapsed state which has no formal banking infrastructure (Gundel, 2002: 256). The Somali economy is more dependent on remittances than any other in the world (Ahmed 2006: 5). Remittances sent to Somalia amount to between 700 million USD and 1 billion USD annually, of which it is estimated that 360 million USD are spent on 'government-substituting' activities such as health, shelter and education (Omer and el Koury, 2004). Many underprivileged groups within Somalia do not have the resources to travel outside Africa and hence cannot send remittances (Gundel, 2002: 272).

In November 2001, the largest Somali transfer company, Al-Barakaat, was summarily shut down by the US Treasury Department because of its alleged links with terrorist organisations. Alternative means to transfer money were found (other remittance companies quickly stepped into the market niche vacated by Al-Baraqaat [Omer & el Koury 2004:46]) and so it did not lead to a catastrophic breakdown of remittances. Al-Barakaat has since been cleared and the State Department was found to have acted without proper grounds (Lindley, 2005). The key issue is the principle behind this intervention and the dilemmas which the 'war on terror' raises.

Conclusion: implications for NGOs

NGOs should be wary of joining the 'remittances euphoria' of recent years. Attempts to link remittances to wider development initiatives have met with limited success according to the Organisation for Economic Co-operation and Development (OECD), which concludes that 'remittances are neither a substitute for ODA nor for FDI flows' (OECD 2005). NGOs must also recognise the limitations of remittances, for instance, they cannot be relied upon as a strategy to assist the poorest regions and countries in the world. The poorest of the poor are not typical migrants (Ellerman, 2005) and countries with the highest poverty levels are not producing large numbers of international migrants and are therefore receiving fewer remittances (Adams, 2006 and see Box 1).

However, remittances do offer NGOs the opportunity to support people at household and community levels by investing in and advising on this locally initiated income-generation practice. For example, NGOs could provide support to struggling migrants and to recipient family members. There may also be scope for NGOs to provide opportunities for remittance recipients to invest these resources in productive enterprises — such as through microfinance.

At the policy level, NGOs should support the development of transparent, accessible and democratic financial institutions, whilst working to protect vulnerable remittance systems, which are not illegal but have taken the brunt of a misdirected 'war on terror'. In Europe, for example, security concerns have placed migrants at the frontline of scrutiny and harassment.

Box 5: Some considerations for NGO strategy

- Promoting Home Town Associations as a means of channelling part of remittances towards community projects.
- Establishing diaspora business networks to mobilise or facilitate investment in home countries – for example, the global business networks of Armenians, Indians and the Lebanese are long-standing and relatively strong.
- Providing information to migrants and diaspora associations based in the North, and to potential migrants in the South.

Box 6: Future areas of potential policy-led research on remittances

- Implications of the 'war on terror' on remittances.
- Implications of the feminisation of remittance process from a qualitative research perspective.
- The role and potential role of civil society in investing in remittances.
- What impact does the 'private' realm of remittance-dependent relationship have on interest to engage in social mobilisation in receiving countries? Has it encouraged families to solve their own problems within an unjust system rather than organising collectively to demand services from the state?
- The question of 'social remittances' or the impact of migrants on ideas, behaviour, local culture and social capital in the sending country.

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Internet Source: www.sendmoneyhome.org
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