

# id21 insights

communicating international development research

## Sending money home

### Can remittances reduce poverty?

**A**t least US\$232 billion will be sent back home globally by around 200 million migrants to their families in 2005, three times official development aid (US\$78.6 billion dollars). Moreover, migration and remittance experts argue that the unofficial transfers could be as large as formal flows. What impact is this having on poverty reduction?

Remittances are a portion of the earnings a migrant sends to relatives back home. Most migrant workers send home between US\$2,000 and US\$5,000 a year – or 20 to 30 percent of their earnings. In most cases, these migrants receive low incomes working in the service or agricultural industry, for example as caterers, cleaners, or farmers. They respond to a demand for foreign labour in the host country.

#### Understanding how remittances work

The social and productive base (such as natural resources, human resources and industry) of an economy defines the ways in which remittances function. They should be seen as foreign savings: as with aid, international trade or investment, remittances interact with the structure of

the local economy in the home country.

To understand the extent to which a local economy provides opportunities for migration and the flow of remittances, we need to analyse the productive forces in an economy. For example, how efficient is the economy? How modern is it? How much diversification is there; how do entrepreneurs operate? What technology tools exist? Does the government provide an enabling environment to motivate interaction between investment and production?

If an economy is unable to produce competitively, its labour force will be reduced and eventually some workers will migrate to take care of their families. But recipient families can only do so much with the money received; they are dependent upon whether their local economy can provide an effective supply of services and products in response to demand.

Consumers' knowledge of what they can get depends on efficient information of the marketplace and a supply-driven economy and business that reacts to remittance recipients' interests (such as savings, credit, education and health). Women, for example, can improve their social position when the local economy offers incentives: if the local economy

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cannot meet that demand, goods will be imported.

#### How can remittances help?

Sending money home is a commitment to family needs that represents between 20 and 50 percent of a migrant's income – which, when added together, has an enormous potential to help reduce poverty. In this issue of *id21 insights*, **Richard Adams** shows that when remittances are increased by 10 percent, the share of those in poverty declines by 3.5 percent. **Ismail Ahmed's** article on Somali remittances illustrates how US\$1 billion provides a lifeline to one of the poorest countries in Africa and warns of the danger of restricting the flow of remittances with tighter regulation. Approximately US\$46 billion are sent back to Latin America and the Caribbean each year by 30 million migrants. As **Rodolfo García Zamora** demonstrates, remittances have an enormous potential to contribute to poverty reduction and economic development, if invested in infrastructure and employment activities.

**Sarah Mahler** discusses how remittances are mostly spent on basic family welfare such as food, clothing and education. However, little research exists on the gender issues involved. These large financial transfers have the potential to generate wealth and increase savings and investment for the household and the wider economy.

**Marta Ruiz-Arranz's** research shows that migrants invest their savings in small businesses, real estate or other assets in their home country and that remittances increase when economic conditions back home improve.



The US Treasury Department froze the funds of Al-Barakaat, Somalia's main bank, in November 2001 for suspected links with Al-Qaeda. For people relying on remittances from families abroad, such as Muhammad Abdi (above), this has had a devastating effect. He has nine children and the financial support he received from his sister in Sweden was critical. He has not had any money since the bank's funds were frozen.

Photo by: Martin Adler/Panos Pictures

- Remittances also have a macroeconomic impact and don't necessarily decrease with global economic downturns. They may even offset or stabilise the ups and downs of financial cycles. **Graeme Hugo** describes the important economic role of remittances in Asia and shows that if they stop suddenly the impact can be dramatic. The terrorists attacks of 11th September 2001 in the USA and the war in Afghanistan caused a 17.6 percent decline in remittances to the Philippines.

### The challenge for practitioners

Practitioners (such as donors, national governments, non-governmental organisations) need to create opportunities for remittances to improve and be absorbed into a local economy. Policies must allow remittances to promote development and alleviate the failures or weaknesses of the local economy.

Institutions working on economic development need to focus on three areas:

- *Integrating remittances into the economy of a country:* exploring the interaction between the local productive base of an economy and the cause and effect of remittance and other migrant transfers.
- *The macroeconomic behaviour of remittances:* specifically, that of the factors that generally influence responses of productive forces such as investment or trade. This means paying close attention to the effect that price increases, foreign exchange rate fluctuations, interest rates or unemployment have on sending remittances home.
- *The impact of remittances on economic growth:* this is particularly important in countries with a strong impact on national income, particularly where remittances represent more than 5 percent of a country's Gross Domestic Product, or 30 percent of total exports.

### Policy implications

The following policy options would strengthen 'transnational' families and the home country's economy:

#### Reduce transaction costs

The average cost of sending money home is almost 10 percent of the total sent, due to market inefficiencies such as lack of competition, use of costly transfer methods and inadequate means of transferring money. Policies need to encourage a competitive environment, adopt and promote cost-effective and value-added payment technologies attractive to consumers.

#### Develop financial democracy

Making use of remittances to assist in providing access to financial systems and affordable financial services is an important policy tool. Senders and recipients need access to bank accounts, savings, loans, insurance services and so on; commercial

#### Total remittances estimates (US\$ billions)

	2004	2005
Developing countries	160.4	166.9
World (developing and industrial)	225.8	232.3

Source: *Global Economic Prospects 2006: Economic Implications of Remittances and Migration*, page 88, World Bank: Washington, DC, 2006

and microfinance institutions can attract senders and recipients into the financial system and increase savings. They can also use remittances within the community for entrepreneurial activities. Offering women access to financial institutions is particularly important as they are often excluded from credit and savings opportunities.

#### Improve health and education

At least 10 percent of remittances are spent on education and health. Insurance and banking institutions can work with schools and health care systems to offer services such as health insurance and scholarship investment funds. Governments and the private sector can promote investment in education funds to increase enrolment rates, school attendance and length of time spent in education for children in communities receiving remittances, as **Ernesto López Córdova's** article explains.

#### Promote tourism and trade

One third of migrant remittance senders visit their home country once a year and spend an average of US\$1,000 per stay, buying home-produced goods. This

demand for tourism and trade is often unmet by an inadequate supply of services and goods. Governments and private sector institutions need to develop profit-making schemes such as investing in small hotels and introducing migrants to lesser-known tourist attractions in their home countries.

#### State policy for migrants abroad

The huge number of migrants worldwide and their engagement with the home country means that governments need to promote an outreach policy to the community living abroad. This would build confidence between the diaspora and the state, enhance and strength links between the two and ensure joint development strategies.

#### Do no harm

Remittances are first and foremost a private family affair: no one can tell other people what to do with their money. Taxation or imposing tough measures, as described by **Ismail Ahmed**, is harmful to individuals already facing serious constraints. Regulatory measures that are harmful to senders will reduce the impact remittances have on development ■

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## Do remittances reduce poverty?

**International remittances to developing countries will total around US\$167 billion in 2005, more than twice official aid flows. Despite the ever-increasing size of international remittances, little attention has been paid to their effect on poverty and income distribution in developing countries and many policy questions remain unanswered.**

What is the impact of international remittances on the level of poverty (the share of the population living below the poverty line) and the depth of poverty (how far the income of the average poor person is below the poverty line)? How do remittances from abroad enable households to escape from poverty in large labour-exporting countries such as Mexico, Guatemala, the Philippines and Ghana?

New research by the World Bank's International Migration and Development Research Programme shows that:

- International remittances reduce the level and depth of poverty. For example, a 10 percent increase in international remittances from each individual migrant will lead to a 3.5 percent decline in the share of people living in poverty.
- While remittances reduce poverty, countries with higher levels of poverty are not necessarily receiving more remittances. Countries with the highest levels of poverty – such as those in sub-Saharan Africa – do not produce many international migrants and therefore receive fewer remittances.

- In general, the largest effects of remittances on poverty are observed in countries located close to major labour-receiving areas. Developing countries close to the United States or Europe tend to receive more remittances which are usually spread evenly among the population. In Guatemala, for example, international remittances reduce the level of poverty by 1.6 percent and the depth of poverty by 12.6 percent; remittances account for over 60 percent of household income for the poorest 10 percent of the population.

**Countries with the highest levels of poverty do not produce many international migrants and thereby receive fewer remittances**

#### Income Inequality

It is sometimes thought that international remittances go mainly to rich people and that therefore remittances will tend to increase income inequality in developing countries. However, the World Bank research finds that international remittances have little impact on income inequality. For instance, in Guatemala and Ghana, including remittances in household income leads to only a slight increase in income inequality. This means that most of the positive impacts of remittances on poverty come from increases in household income, rather than any changes in the level of income distribution in a country.

To increase the positive impact of international remittances on poverty, it would be useful for the international community to:

- Reduce the high transaction costs of remitting money to developing countries. The present high transaction costs act as a type of

# Improving health and education

**R**emittances encourage investment in education and health, especially for children. New research suggests they can help families break the cycle of poverty and improve living conditions for future generations.

The Inter-American Development Bank (IADB) estimates remittance flows to Latin American and Caribbean countries at over US\$45 billion in 2004. In 2005 they will have reached US\$55 billion – higher than foreign direct investment and overseas development assistance to the region. The magnitude of such transfers raises important questions about their development impact and how national governments and the international community can maximise their potential.

Remittances may improve education and health as they allow families to supplement their limited incomes and invest in the future. Examining the impact of remittances separately from other effects of migration is difficult, however. The possibility of emigrating, and remittance income itself, may affect people's work and schooling decisions. Migration may disrupt family life and influence children's performance

regressive tax on international migrants, who tend to be poor and to send small amounts of money home.

- Pay more attention to integrating 'migration policy' within the larger global dialogue on economic development and poverty reduction. In the past much attention has been paid to the movement of goods and finance between countries. It is now time to pay more attention to the movement of people between labour-importing and labour-exporting countries.
- Improve efforts to collect data on international remittances in developing countries. In particular, better data is needed on the large amounts of remittances flowing through unofficial and informal channels.

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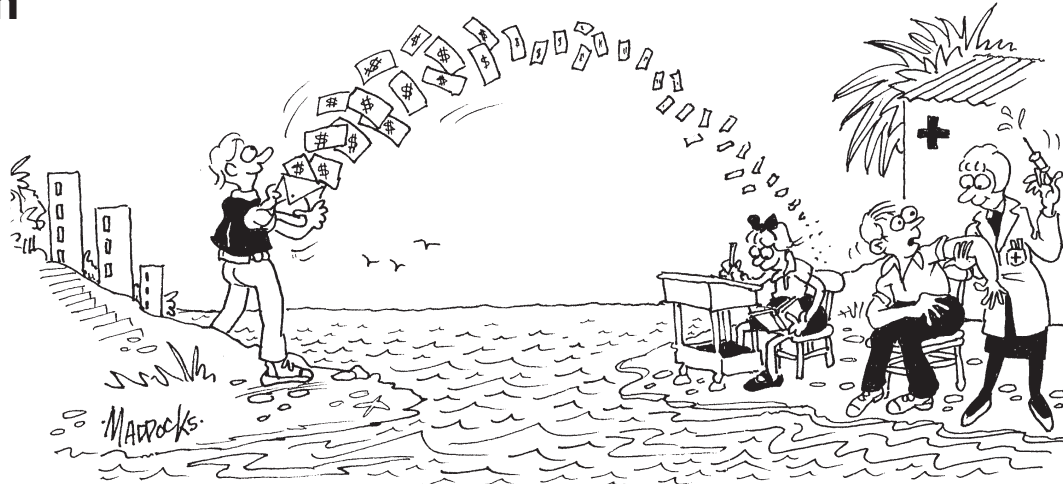
## See also

'Do International Migration and Remittances Reduce Poverty in Developing Countries?' *World Development* 33(10), pages 1645-1669, by Richard Adams, Jr. and John Page, 2005

*International Remittances and the Household: Review of Global Evidence*, paper presented to the African Economic Research Consortium, Nairobi, Kenya, by Richard Adams, Jr., May 2005

*Remittances and Poverty in Guatemala*, World Bank Policy Research Working Paper 3418, by Richard Adams, Jr., 2004

[http://wdsbeta.worldbank.org/external/default/WDSContentServer/IW3P/IB/2004/10/19/000012009\\_20041019140801/Rendered/PDF/3418WPS.pdf](http://wdsbeta.worldbank.org/external/default/WDSContentServer/IW3P/IB/2004/10/19/000012009_20041019140801/Rendered/PDF/3418WPS.pdf)



at school. Migrants may get better information about health care that they then share with their families back home.

An increasing number of studies show that the overall effect of remittances on education and health is positive.

## Remittances may reduce infant mortality by improving housing conditions, or by improving access to public services such as drinking water

Evidence indicates that children from recipient households stay in school longer:

- In El Salvador, US\$100 of remittance income lowers the probability of children leaving school by 54 percent in urban areas.
- In the Philippines, a 10 percent rise in household income through remittances leads to a proportional increase in enrolment rates among children aged 17 to 21.
- Across Mexican rural municipalities, illiteracy among children aged 6 to 14 falls by three percent when the number of households receiving remittances rises by one percent.

Remittances play an important role if the public health care system is unable to provide universal health insurance or adequate treatment and preventative care. Studies in Mexico show that:

- An additional peso in remittance transfers raises households' health care expenditure by between 6 and 9 centavos.
- Infant mortality falls and birth weight among Mexican children improves with remittances. A one percent rise in the portion of households receiving remittances reduces by 1.2 lives the number of children who die in their first year.
- Remittances may reduce infant mortality by improving housing conditions, allowing mothers to stay home and care for the newborn baby, or by improving access to public services such as drinking water.

What can the international community and national governments do to strengthen the developmental impact of remittances? The

IADB and other institutions recommend:

- lowering the cost of sending remittances home by increasing competition among service providers, improving payment system infrastructure and removing regulatory barriers
- promoting financial democracy by encouraging greater use of the banking system
- promoting greater remittance flows by avoiding taxation and overregulation
- enhancing their local development impact by supporting hometown associations (groups of migrants from the same community)
- improving housing conditions by offering mortgage loans to migrants
- encouraging banks to offer new financial products to migrant families, such as health insurance policies
- working with hometown associations to improve education and health infrastructure.

A consensus is emerging among international organisations and national governments to work in these areas. Facilitating remittance flows should allow recipient families worldwide to offer their children a brighter future ■

*The opinions expressed in this article do not necessarily reflect the views of the IADB or its member countries.*

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## See also

*International Remittances and Development: Existing Evidence, Policies and Recommendations*, paper presented by Ernesto López-Córdova and Alexandra Olmedo at the G-20 Workshop on Demographic Challenges and Migration, Sydney, Australia, August 2005

*Beyond Small Change: Making Migrant Remittances Count*, Inter-American Development Bank: Washington DC, edited by Donald F. Terry and Steven R. Wilson, 2005

*IADB and World Bank figures in this issue of id21 insights differ because the IADB reports remittance flows from more countries in Latin America and the Caribbean than the World Bank.*

# Boosting economic growth

**R**emittances by international migrants to their countries of origin constitute the largest source of external finance for developing economies after foreign direct investment (FDI). Estimated official remittances are US\$167 billion for developing countries in 2005, double total development aid.

In fifteen developing countries studied by the International Monetary Fund (IMF), remittances account for more than 10 percent of Gross Domestic Product. This is true for some islands in the Caribbean and Pacific and for several labour-exporting countries such as Albania, El Salvador, Jordan, Lesotho, Moldova, and the Philippines. Despite their increasing importance in total international capital flows, the relationship between remittances and economic growth has not been adequately studied.

This contrasts sharply with the extensive research on the relationship between growth and other sources of foreign capital, such as FDI and official aid. The accepted view seems to be that because remittances are used mostly for consumption by individual households, they have a minimal impact on long-term growth.

**The biggest challenge is to understand why remittances do not seem to boost growth in countries with well-functioning credit markets, and to work out how policies could address this**

A recent IMF working paper examines how local financial sector development influences a country's ability to take advantage of remittances. In theory, the impact of remittances on growth can work either through the financial system or parallel to it:

- Relatively developed financial systems would presumably treat remittances like any other form of savings and, by reducing transaction costs, allocate them to projects that yield the highest returns. This might be expected in some emerging Asian countries where banking sector development is high.
- In countries with less developed financial systems (most of sub-Saharan Africa and some post-Soviet central Asian states), remittances might become a significant complement for inefficient or nonexistent credit markets by helping local entrepreneurs bypass lack of collateral or high lending costs to start productive activities.

## How does it work in practice?

Using data covering 100 developing countries from 1975 to 2002, the IMF study finds strong evidence that the second theory works: remittances boost growth in countries with less developed financial systems by providing an alternative way to finance investment. Remittances act as a substitute for the domestic financial system.

**Remittances boost growth in countries with less developed financial systems by providing an alternative way to finance investment. Remittances act as a substitute for the domestic financial system**

There is no evidence, however, that the first channel works: even after controlling for differences in the level of income among countries, remittances do not seem to have an impact on growth in countries with well-functioning domestic financial markets.

Specifically, research findings show that:

- While more developed financial systems seem to attract more remittances (due to lower transaction costs and fewer restrictions on payments), they do not seem to increase their impact on growth.
- Remittances substitute for financial development in countries with less developed financial systems.

The study also challenges some common myths about remittances:

- Remittances are widely viewed as compensatory transfers between family members. Nevertheless, remittances respond to investment opportunities in the home country as much as to charitable or insurance motives. Many migrants invest their savings in micro businesses, real estate or other assets in their own country, probably expecting to return one day or because they know local markets better than in their host countries. In about two-thirds of developing countries, remittances are mostly profit-driven and increase when economic conditions back home improve.



Customer in the Daahab Shii bank in Somalia, collecting remittances in US dollars from a relative overseas.

Photo by: Sven Torfinn/Panos Pictures

- Remittances are used for investment particularly where the financial sector does not meet the credit needs of local entrepreneurs.

## Recorded remittances have grown faster than foreign direct investment or official development assistance (US\$ billions)

	1995	2004
Workers' remittances	58	160
Foreign direct investment	107	166
Official development assistance	59	79

Source: Global Economic Prospects 2006: Economic Implications of Remittances and Migration, page 88, World Bank: Washington, DC, 2006

The evidence that remittances can help overcome difficulties with access to finances and undertake profitable investment in countries with less developed financial systems is encouraging.

But while policymakers stress the need to encourage remittance flows by reducing transfer costs, the biggest challenge is to understand why remittances do not seem to boost growth in countries with well-functioning credit markets, and to work out how policies could address this ■

*The views expressed in this article are those of the author and should not be attributed to the International Monetary Fund, its Executive Board, or its management.*

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## See also

Remittances, Financial Development, and Growth, IMF Working Paper No. 05/234, IMF: Washington, DC, by Paola Giuliano and Marta Ruiz-Arranz, December 2005  
www.imf.org/external/pubs/cat/longres.cfm?sk=18607.0



# New regulations restrict Somali remittances

**A**pproximately one million Somalis send US\$1 billion back home every year, a crucial source of income for most of the Somali population. New regulations, however, as part of the 'war on terror', are restricting the flow of remittances into the country.

In 2004, remittances were about 67 percent of Gross Domestic Product and more than ten times the value of exports. The Somali economy is now more dependent on remittances than any other in the world.

Migrants normally come from wealthier families who can afford to send someone abroad. But because of a strong tradition of sharing wealth they support their immediate families as well as extended family and distant relatives.

Remittances have succeeded in:

- creating employment opportunities and reducing poverty: the booming construction sector employs thousands of poor male labourers, while families receiving remittances employ similar numbers of female domestic workers from rural areas
- boosting the rapid growth of the private sector
- softening the predicted economic disaster following the livestock export ban imposed by Saudi Arabia since 1998.

Somali companies engaged in money transfers have developed extensive, efficient and low-priced transfer networks throughout north-east Africa. Almost every Somali district now has a remittance company branch that serves as a bank facilitating local and international trade and telecommunication links with migrants.

Recognising the reach of these networks, international agencies have now set up partnerships with the remittance companies for humanitarian purposes.

## Remittances boost trade and savings

As the main source of foreign currency earnings, remittances finance the import of goods and services. Funds deposited by importers with agents in East Africa are paid in Dubai at no cost. Money transmitters and their agents can manage their cash flows without having to physically bring cash into the country, unless trading is disrupted by conflict.

Small-scale savings are also increasing as more migrants open savings accounts with remittance companies in their hometowns thinking that their funds are safer back home than in European or US bank accounts. Others prefer to keep their capital closer to home to invest in property, other assets or further migration. Some remittance companies are now exploring microfinance and other investment services and products.

## Remittance companies have fallen victim to government anti-terror measures worldwide

### Regulations curb remittance flows

Remittance companies, however, have fallen victim to government anti-terror measures worldwide. In November 2001, the largest Somali money transfer company, Al-Barakaat, was shut down and its assets frozen by the US Treasury Department because of alleged links with terrorist organisations. Strict laws against money laundering and financing terrorism have led to greater scrutiny of remittance companies by regulators, banks and law enforcement agencies in Europe and North America. Companies complying with the new



**Billboard advertising an international money transfer company. Most people in Somalia depend on remittances sent to them by family members living abroad.**

Photo by: Sven Torfinn/Panos Pictures

regulations are struggling as US banks have closed the bank accounts of all international money transmitters (including most Somali companies) perceived as high risk.

To comply with the new regulations, transfer companies have to obtain expensive licenses, bonds, and minimum capital as well as invest in technology to ensure compliance with anti-money laundering regulations. Transfer costs have thus increased significantly: transmitter licenses in 5 of the 35 sending countries require a total investment of at least US\$5 million dollars; a typical transfer of US\$50 from the Netherlands now costs US\$10 – four times what it used to cost.

### Identifying clients

Moreover, the traditional client identification systems that worked so well in the past are no longer accepted. Transmitters now have to obtain formal identification forms and proof of receipt from recipients. This is further complicated by the expanding list of common Arabic or Muslim names on US, United Nations, European Union and other sanction lists. Up to 40 percent of common Muslim names are now blocked by standard screening software.

Remittances clearly provide a lifeline to poor families. As more countries impose complex and sometimes conflicting regulations, a better understanding of their potentially negative effects on remittance flows is crucial.

The United Nations Development Programme is supporting Somali remittance companies to set up self-regulation systems and adopt money transfer technology that is compliant with new regulations to maintain and strengthen this financial lifeline and reduce increasing transfer costs ■

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## 'Hawala'

### Formal or informal?

**Somalis describe the money transfer system used to send money to relatives back home as *hawala*. Indeed all money transmitters including Moneygram and Western Union are known as *hawala*, derived from an Arabic word – (*hawil*) meaning transfer.**

However, media and remittance literature generally refer to *hawala* as an informal, underground and often illegal money transfer system. In some countries, such as India and Pakistan, non-bank money transfer systems, and therefore *hawalas*, are illegal. Elsewhere, standard systems or *hawalas* are legal provided they are registered or have licenses. The media often uses the Indian and Pakistani meaning of *hawala* to describe other transfer systems so it has become a byword for illegal activities:

*hawalas* are sometimes seen, for example, as the primary network used to finance Al-Qaeda. The association for Somali money transfer companies is even considering banning the use of the word *hawala* and inventing a new Somali word for money transfer.

Somali remitters or *hawalas* are neither informal nor illegal. In the UK and USA, from where nearly half of Somali remittances originate, Somali remittance companies are formal transmitters, with the necessary registration and licenses, operating legally. A typical Somali remittance company will have a large network of registered agents and branches in some 35 countries all operating under one brand name – no less formal than any of the large international money transfer operators such as Western Union.

Ismael I. Ahmed

## A better quality of life?

**R**emittances have an important role to play in the economic development of a country. Yet their impact is primarily seen at the regional and local level as a source of income to improve the wellbeing of thousands of households in migrant-sending countries.

More than 30 million Latin American migrants live and work abroad. Approximately 18 million live in the USA; 16 million send between US\$200 and US\$300 back to their families every month.

The Inter-American Development Bank (IADB) estimates that Latin American and Caribbean migrants sent home US\$45.8 billion in 2004, making Latin America and the Caribbean one of the highest remittance-receiving regions in the world. Mexico alone received US\$16.6 billion in 2004 – more than any other country in the world and a 25 percent increase from 2003. The second largest amounts received in the region were by Brazil (US\$5.6 billion) and Colombia (US\$3.9 billion).

### Remittances should not be seen as a substitute for government policy and action

IADB research shows that remittances have an enormous potential to contribute to poverty reduction and economic development if invested in infrastructure and employment activities, for example, in migrants' home communities.

Research findings include:

- In Central America approximately

90 percent of remittances are spent on basic family needs, including education and healthcare. The remaining 10 percent is saved or invested.

- Households receiving remittances tend to have better nutrition and access to health and educational services compared to households that do not. Remittances improve the wellbeing of those who receive them; they also create a form of social hierarchy between those who receive and those who do not.
- The poorest regions of Mexico are not the main regions sending migrants or receiving remittances.

### Mexico provides a good success story

Zacatecas is a state with over 100 years history of migration to the USA and the highest percentage of its residents living abroad of any Mexican state. For over 15 years Zacatecan migrants have been using remittances to finance social infrastructure projects back home, such as drinking water systems, school renovations, electrification and road construction. From 1993 to 2004, Zacatecan hometown associations (groups of migrants from the same community) spent over US\$164.8 million from remittances on 1,500 community projects; the Mexican government matched these investments with approximately US\$483 million.

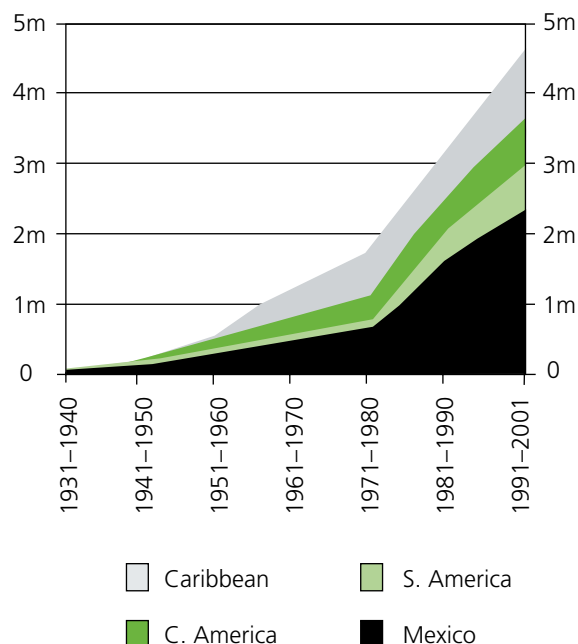
### Households receiving remittances tend to have better nutrition and access to health and educational services compared to households that do not

In Mexico there is a lot of literature on the social impact of remittances (such as the separation of families or the loss of young men) or on their economic impact (on family finances and the fact that 31 percent of municipalities in Mexico are experiencing significant depopulation). Few studies examine both the social and economic impacts; neither do they look at what the future holds for sending and receiving communities.

Policy implications include:

- Research carried out in the last ten years in Jalisco by the University of Guadalajara and in Zacatecas by the University of Zacatecas shows the need for new public policy that encourages proposals by migrant organisations.
- Support is needed for those most vulnerable to international migration

### Latin American migration to the USA (millions)



Source: *Remittances - Global Opportunities for International Person-to-Person Money Transfer*, VRL Publishing, by Manuel Orozco, 2005

– women, children and the elderly. This requires collaboration between government agencies, educational institutions, non-governmental and international organisations.

- Remittances should not be seen as a substitute for government policy and action. Migrant organisations and the projects they finance with remittances can support regional development alongside government input in the form of training, organisation and finance ■

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IADB and World Bank figures in this issue of id21 insights differ because the IADB reports remittance flows from more countries in Latin America and the Caribbean than the World Bank.

### Developing countries receiving the most remittances, 2004 (US\$ billions)

India	21.7
China	21.3
Mexico	18.1
Philippines	11.6
Morocco	4.2
Serbia	4.1
Pakistan	3.9
Brazil	3.6
Bangladesh	3.4
Egypt	3.3
Vietnam	3.2
Colombia	3.2
Nigeria	2.8

Source: *Global Economic Prospects 2006: Economic Implications of Remittances and Migration*, page 90, World Bank: Washington, DC, 2006

### Forthcoming issues

Food security  
Tourism

# Sending money home to Asia

**Half the world's international migrants and most international labour migrants come from Asia. It is the main destination region for remittance flows from north to south, as well as within Asia from countries such as South Korea, Singapore, Hong Kong and Thailand. The scale of remittances in Asia is unknown, however, and few policies exist to maximise their developmental impact.**

Remittances in Asia come from two types of migrant: permanent settlers from Asian countries now living in OECD (Organisation for Economic Co-operation and Development) countries and contract labourers working in the Middle East and other more prosperous Asian countries. Migration data is poor and movement out of Asia is undocumented. Census data from 2000 estimated that 16.8 million Asian expatriates live in OECD countries, an underestimate but an indicator of the numbers of people involved.

Establishing the scale of and trends in remittances is difficult as less than half flow through official channels. Asia accounts for the largest share of the official US\$167 billion remittance flows to developing countries—and experts estimate that this figure could be double if informal channels were included.

Large inflows of remittances can have a considerable economic impact. In the 1990s remittances contributed an average of 20.3 percent of the Philippines' export earnings and 5.2 percent of Gross Domestic Product. In 2000, the

Government appealed to Filipinos overseas to remit more to save its economy. If remittance flows stop, the impact on the home country can be dramatic: the terrorist attacks on 11th September 2001 in the USA and the military strikes on Afghanistan caused a 17.6 percent decline in remittances to the Philippines in late 2001.

## The terrorist attacks on 11th September 2001 in the USA and the military strikes on Afghanistan caused a 17.6 percent decline in remittances to the Philippines in late 2001

Relying too much on remittances can delay structural change in the domestic economy, some say. In the Philippines remittances have discouraged modernisation in the agriculture sector and diverted attention from attracting foreign investment in manufacturing while other Asian countries made these changes. Remittances can also lead to greater vulnerability to external shocks by increasing imports and reducing the incentive to develop exports.

### Encouraging remittances

Remittances can contribute to national, regional and local economies. During the Asian economic crisis in the late 1990s foreign investment declined suddenly, leading to increased unemployment. Many migrated overseas and remittances became an important source of foreign exchange.

Some countries have built remittance targets into their national development plans. In Indonesia's fifth Five Year Plan (1989 to 1994) it was estimated that US\$1.8 billion was transferred through official channels. A target of US\$8.4 billion was then set for the sixth plan. So too,

South Korean contract workers had to remit at least 80 percent of their earnings through the national banking system. Attempts by the Philippines, Pakistan, Thailand and Bangladesh to do something similar failed: it is difficult to enforce regulations or tax remittances when much migration happens outside government influence.

### Boosting development

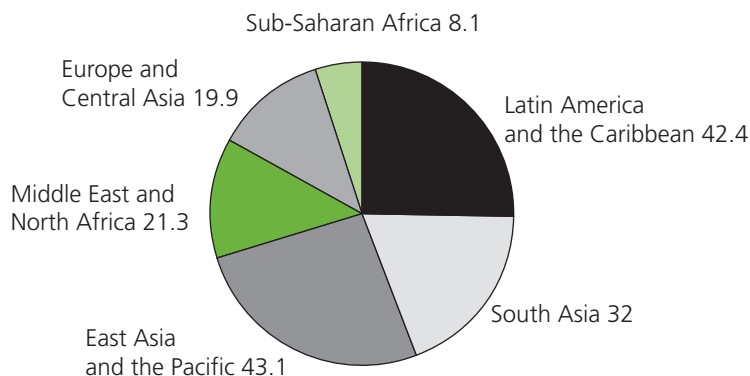
In spite of decentralisation in many countries, the potential of remittances to invest in regional development and employment activities has been ignored. Policymakers need to:

- focus on remittances at the regional planning level, including some of the poorest areas most neglected by central planners
- understand why remittance flows often pass through unofficial channels: formal services are often unavailable in remote areas or remitters send money through trusted family and friends to avoid formal interventions or government corruption
- improve physical infrastructure, especially transport and electricity, which would assist small investors
- include recipients in planning efforts to increase investment opportunities as part of regional development
- provide training and education programmes to help returning migrants make effective investment decisions ■

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**Estimated workers' remittances to developing country by region in 2005 (US\$ billions)**



Source: *Global Economic Prospects 2006: Economic Implications of Remittances and Migration*, page 88, World Bank: Washington, DC, 2006

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## Gender matters

### Are remittance flows gender-neutral? Does it matter if the people involved in these transactions are male or female? Do remittances reshape gender relations?

Most studies examine how much money is sent home, how to lower transfer costs or what percentage of a country's Gross Domestic Product remittances represent. Remittances reflect and transmit power yet very little research exists on the gender issues involved.

The few studies that do exist offer some provocative findings. Survey data from senders and receivers of both sexes report that remittances are spent on basic family welfare such as food, clothing and education. However, in Latin American and the Caribbean slightly more women than men report using remittances for investments, savings and businesses.

Observational data from fieldwork offer additional insights:

- Women spend most of their remittances on their families' basic needs while men spend more on non-necessities.
- While a common household economy is often assumed, spouses frequently send remittances independently and for different purposes.
- Government officials in highly patriarchal societies such as Mexico often exclude female migrants from decision-making roles regarding how collective remittances should be invested in local development projects.
- Remittances increasingly finance poor countries that discriminate against females. The Filipino government used to require female domestic workers to remit 50 percent of their earnings. Today these workers are disproportionately blamed for family disintegration while their non-migrant husbands, who often squander remittances, are portrayed as sacrificing for their families.
- When female migrants send remittances home they improve their social standing in their families. This is important especially when they are excluded from 'traditional' means of increasing status enjoyed only by males. For example, in Thailand only sons

may join religious orders or perform ancestral rites.

- Receiving remittances – particularly in the absence of other income – increases recipients' dependency upon remitters. However, in countries where males usually control household income, female recipients in particular become empowered as they control how remittances are spent. In rural El Salvador and elsewhere negotiations between remitting and recipient husbands and wives are a major strain on relationships and families in general.

### Gender matters to remittances

Gender is often mistakenly seen as a synonym for women, when it should refer to the social forces that determine acceptable male/female behaviour and how men and women relate to each other. The research findings show that a truly gender-based approach to remittances is urgently needed.

- Governments and international organisations should commission studies that incorporate gender into their design and analysis and include work on how senders and recipients interact with financial institutions.
- Research should include surveys and direct observation.
- Research results must be widely disseminated particularly to policymakers who should incorporate them in planning and implementation.
- Female and male migrants and recipients should be involved in policy and decision-making.
- Gender policies must address men as well as women, a shift that is likely to motivate male policymakers to take gender more seriously.

Do financial institutions, or indeed the women themselves, know that migrant women dedicate a higher percentage of remittances than men to capital and asset-building? This finding could empower women to demand more access to finance – such as loans and insurance – and shows that incorporating gender is one of the most promising routes to improving policy.

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### See also

*Crossing Borders: Remittances, Gender and Development*, United Nations International Research and Training Institute for the Advancement of Women (INSTRAW) Working Paper, by Carlota Ramírez, Mar García Domínguez and Julia Míguez Morais, June 2005

[www.un-instraw.org/en/images/stories/remittances/documents/crossing\\_borders.pdf](http://www.un-instraw.org/en/images/stories/remittances/documents/crossing_borders.pdf)

## Useful web links

International Monetary Fund

[www.imf.org](http://www.imf.org)

The World Bank Research Programme on International Migration and Development

<http://econ.worldbank.org/programs/migration>

International Labour Migration

[www.ilo.org/public/english/protection/migrant](http://www.ilo.org/public/english/protection/migrant)

Global Commission on International Migration

[www.gcim.org](http://www.gcim.org)

The Global Development Research Centre

[www.gdrc.org](http://www.gdrc.org)

USAID Remittances and Transfers

[www.microlinks.org/ev\\_en.php?ID=5192\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/ev_en.php?ID=5192_201&ID2=DO_TOPIC)

International Organisation for Migration

[www.iom.int](http://www.iom.int)

Migration Policy Institute

[www.migrationpolicy.org](http://www.migrationpolicy.org)

Migration Information Source

[www.migrationinformation.org](http://www.migrationinformation.org)

UN INSTRAW Research on Remittances

[www.un-instraw.org/en/index.php?option=content&task=view&id=595&Itemid=108](http://www.un-instraw.org/en/index.php?option=content&task=view&id=595&Itemid=108)

Inter-American Development Bank

[www.iadb.org/mif/remittances](http://www.iadb.org/mif/remittances)

Hearing from 'US Committee on Financial Services' on Remittances, October 2003

<http://financialservices.house.gov/hearings.asp?formmode=detail&hearing=259>

Sending Money Home

[www.sendmoneyhome.org](http://www.sendmoneyhome.org)

Nextbillion.net

[www.nextbillion.net/blogs/topic/remittances](http://www.nextbillion.net/blogs/topic/remittances)

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