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Can Immigrant Remittances Support Development Finance?

Summary: Immigrant remittances are a significant source of income and finance for developing economies, representing about three times' official development assistance and over half of foreign direct investment annually received. Major motivations to send remittances are for improving food, health, and education spending of families at home as well as for investing in entrepreneurial ventures. Economic policies to channel remittances into development finance should translate these motivations into measures to boost social investment and local and regional production, linking remittances policies to broader fiscal, financial and institutional policies. A national development bank can be a catalyser of public and private interests by supporting the scale up of remittances investment programmes and by building partnerships with regional and multilateral development institutions.

Key words: Immigrant remittances, Development finance, Diasporas, Motivations.

JEL: J15, F39.

Until recently, international remittances were defined as the sum of workers' remittances, compensation of employees, and migrants' transfers. Based on recommendations by a Technical Working Group on improving remittance data led by the United Nations (UN), the World Bank and the International Monetary Fund (IMF), in 2006 migrants' transfers are not included in the definition anymore and workers' remittances were replaced by the concept of "personal transfers". In fact, since 2009 the IMF defines remittances as: (1) "compensation of employees" and (2) "personal transfers" (ACP Observatory on Migration 2011).

International migrant remittances flows have multiple effects on receiving countries. Analysis of positive and negative impacts of remittances have been examined by numerous specialists for the past thirty years (Ilene Grabel 2008; Richard H. Adams Jr. and Alfredo Cuecuecha 2010; Dilip Ratha et al. 2011; Sanket Mohapatra, Ratha, and Ani Silwal 2011). Rising steadily during this period, with the exception of the recession in 2008-2009, remittances are a significant source of income and finance for receiving economies. They represent about three times the official development assistance and over half of foreign direct investment annually received by developing countries. However, policy options for remittances and implementation have been much less analysed. In fact, the question remains as to whether appropriate policies can boost remittances' volumes and be more effectively channelled as development finance. Yet, it is important to remember that although remittances can support development, they cannot be the panacea.

This paper tries to grapple with this question. Section 1 evaluates the relevant trends of migrant remittances and surveys the motivations behind remittance-senders and receiving families. Section 2 assesses the progress attained by remittances policies implemented by receiving-countries. Section 3 develops a typology of remittances policies that identifies the objectives pursued, the policy instruments used, and main hurdles and results found. The typology serves to classify remittances policies as fiscal, financial and institutional. This part also proposes a framework to mainstream remittances into development finance by strengthening national development banks and their links with multilateral development institutions. Section 4 draws some conclusions.

1. Main Trends and Characteristics of Remittance Flows

Although the World Bank remittances' data might still understate the actual level of remittances, in particular because the level of informal remittances is unknown, they are the most complete time series publically available, constantly revised and updated with new research e.g. household surveys and surveys to countries' Central Banks. Recent efforts by the International Fund for Agricultural Development - IFAD (2010) on survey data collection are laudable and, although they are not a time-series databank, their estimations for some countries can be used as a good approximation on current remittances to rural areas, in particular.

International migrant remittances flows to developing countries have been estimated at $351 billion in 2011, up 8 per cent over 2010 and projected to reach $414 billion by 2014. They represent over 70 per cent of worldwide international remittances, which include flows to high-income countries. However, downside risks persist due to slow growth in the US and Europe and persistent unemployment which affects employment prospects of immigrants. The main sources of global remittance flows are the United States, estimated to record US $53 billion in outward remittances in 2011, followed by Saudi Arabia with $28 billion. Switzerland, Germany, and Russian Federation are also important sources of remittances (Mohapatra, Ratha, and Silwal 2011).

1.1 Who Send Remittances?

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

In the same vein, the study for 71 developing countries by Adams Jr. (2008) finds that countries that export a larger share of high-skilled (educated) migrants receive less per capita remittances than countries that export a larger proportion of low-skilled migrants. In the same study, instrumental variable results suggest that a 10 per cent increase in the share of high-skilled migrants from a labor-sending country

would reduce the amount of per capita remittances received by 11.2 - 19.7 per cent, while a similar 10 per cent increase in the share of low-skilled migrants would increase the level of remittances received by 9.1 - 19.8 per cent.

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

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

1.2 Which Motivations are Behind Sending Remittances?

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

The Orozco (2004) study found that in the case of Mexico, Nicaragua and El Salvador no less than 75 per cent of remittances are spent in food items. The United Nations (2007) study on Guatemala also indicated that 50 per cent of remittances were used for consumption goods (food, clothing), though men spent slightly more on these items than women, who spent slightly more on health and education. In the case of Albania the proportion of remittances spent on food items is 63 per cent and 25 per cent on durables (Adriana Castaldo and Barry Reilly 2007). Similarly, while 50 per cent of remittances flows to Kenya are spent in land purchases, building houses, businesses, improving the farm, agricultural equipment and other investments, in Nigeria 20 per cent of remittances are spent in purchasing land (Ratha et al. 2011). In the case of Indonesian immigrants in Hong Kong (China) and Japan, remittances are mainly sent for education and savings, similar to the choice made by Malaysian immigrants in Japan (Asian Development Bank 2006).

In countries where most of the remittances are received by the poorest, a larger proportion of remittances are used in food, clothing and other basic consumption goods. For example, the study by Adams Jr. and Cuecuecha (2010) on Indonesian

households found that comparing households receiving remittances in 2007 with a counterfactual situation in which they did not receive remittances, households receiving remittances increased their marginal expenditures on food by 8.5 per cent, and reduced their marginal expenditures on housing by 39.1 per cent.

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

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

1.3 Significance of Remittances as a Source of Income and Finance

Much has been written on the stability and counter-cyclical nature of remittances flows; however, new studies have begun to cast doubts on them. For a detailed summary of those discussions see Grabel (2008). Table 1 indicates that remittances flows to developing countries of all income-levels have grown exponentially since 1980; they duplicated during the decade 1990-1999 relative to 1980-1989 and tripled thereafter. Growth of remittances in low-income countries has been five times higher in 2000-2009 relative to 1990-1999, while remittances to least developed countries (LDCs) have also shown significant growth. However, low-income countries do not receive the bulk of remittances. Over 90 per cent of the volume of remittances is concentrated in middle-income countries, which have tripled their volumes of remittances received between 1990-1999 and 2000-2009.

From Table 2 it could be inferred that the growth of remittances during 2000-2009 helps to keep low-income countries afloat. Remittances represented six per cent of low-income countries' Gross Domestic Product (GDP) in 2000-2009, higher than in 1990-1999 when they were only one per cent. The remittances *per capita* ratio

Table 1 Remittance Flows to Developing Countries (US$ billion), Per Decade

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

Source: Elaborated based on data provided by World Developed Indicators Database.[1]

Table 2 Remittance Flows and Ratios, by Income Level and LDCs, Per Decade

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

Notes: 2009 is latest data available for Exports of Good and Services, GDP and ODA. 2010 is latest data available for Population and Remittances.

Source: United Nations, World Bank, Organization for Economic Co-operation and Development (OECD).[2]

also grew four times during that time. Similarly, the ratio of total remittances to total exports was 28 per cent during 2000-2009, while the total remittances received became equivalent to total official development assistance (ODA). A similar trend was visible in LDCs. For middle-income countries, remittances did not represent more than 2 per cent of GDP in 2000-2009; however, the remittances per capita indicator was 38, which doubles the figure of low-income countries.

The study by Adams Jr. (2008) suggests that an inverted-U shaped curve exists between the levels of *per capita* income and *per capita* remittances in a country.

[1] **World Bank**. 2011. World Development Indicators. http://data.worldbank.org/data-catalog/world-development-indicators.

[2] **OECD.** 2012. http://www.oecd.org/statistics/ (accessed February 20, 2012).

With all other factors held constant, the level of per capita remittances received by a country increases until a country has a *per capita* income of about $2,200 per year, and falls thereafter. Thus, middle-income countries receive more *per capita* remittances than low- or high- income countries.

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

Table 3 External Finance Inflows to Developing Countries, 2009

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

Source: United Nations, World Bank, OECD.[4]

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

[3] Incidentally, it is worth to mention the work by Leonce Ndikumana and James K. Boyce (2011) indicating that Sub-Saharan countries are net creditors to the rest of the world (finance outflows) with an estimated US$800 billion in capital flight through 2008.
[4] **OECD.** 2012. http://www.oecd.org/statistics/ (accessed February 20, 2012).

2. Remittances Programmes and Policies Implemented

For the past twenty years the remittance policy literature has made progress on assessing different aspects of remittances such as a) the implementation of regulatory frameworks to reduce transfer costs in different corridors; b) the support to financial inclusion; c) the support to investment motivations of diasporas. The next paragraphs briefly elaborate on some of these issues.

2.1 Cost-Reduction of Transferring Remittances

These policies have been applied to enhance competition in the remittance market, improve payment systems, and increase transparency (Fajnzylber and López 2007).

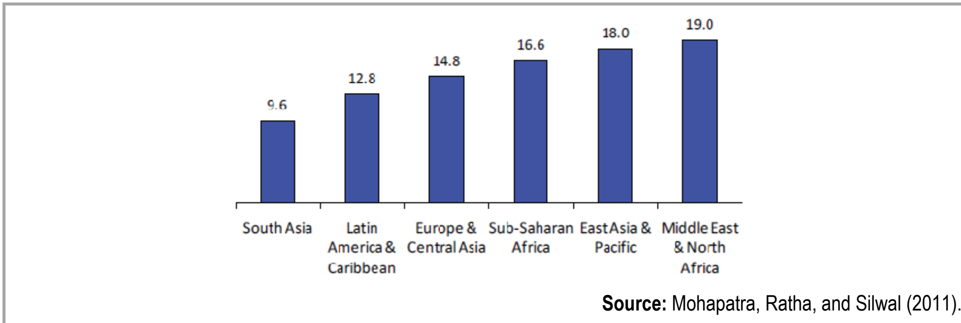
On the whole, the average remittance cost, weighted by bilateral remittance flows, has consistently declined for the past twenty years. More recently, average remittance costs fell from 8.8 per cent in 2008 to 7.3 per cent in the third quarter of 2011. In particular, costs have continued falling in high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

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

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

However, progress has been uneven. Figure 1 indicates that the weighted average cost for sending $200 is most expensive in the Middle East & North Africa and East Asia & Pacific recipient regions, while it is less costly in South Asia and Latin America & Caribbean regions. For the latter regions, it has been fundamental the efforts displayed to increase market competition among MTOs and wider application of cheaper and appropriate remittance technology.

Transfer costs of various corridors within Africa, particularly the ones that link South Africa with Zimbabwe, Mozambique, Angola, Zambia and Botswana are as high as 17-22 per cent. The cost includes the transaction fee and the exchange rate margin. The cost also averages 16-19 per cent for corridors linking Japan to Brazil, India, China and Korea (Mohapatra, Ratha, and Silwal 2011).



Source: Mohapatra, Ratha, and Silwal (2011).

Figure 1 Weighted Average Cost of Remitting $200 to Developing Regions, Third-quarter 2011 ($)

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

2.2 Financial Inclusion of the Unbanked

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

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

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

2.3 Support to Investment Motivations of Diasporas

Definitions of diasporas vary across countries; thus for a discussion on definitions of diasporas see Ratha et al. (2011). Specialists have written profusely on diasporas potential for contributing more effectively to the development of remittance-receiving countries (Dovelyn Rannveig Agunias 2006; Metka Hercog and Melissa Siegel 2011; Rebecca Davies 2012). Some of these countries have given the right to dual nationality in order to facilitate close links between migrants and their home country and ensure continuity of remittance flows. Ratha et al. (2011) argue that dual-citizenship is a relevant factor for diaspora's participation in trade, investment, and technology transfer, while it makes easier to travel to, remit and own land in the origin country. A host country's citizenship can improve migrants' earnings and their ability to send remittances to and invest in the origin country. Information available indicates the following twenty African countries allowing double citizenship: Algeria, Angola, Benin, Burkina Faso, Cape Verde, Central African Republic, Cote d'Ivoire, Egypt, Gambia, Ghana, Kenya, Mauritius, Morocco, Namibia, Nigeria, Sierra Leon, South Africa, Togo, Tunisia, and Uganda.

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

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

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

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

3. A Framework for Mainstreaming Remittances into Development Finance

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

3.1 A Typology of Remittances Policies

Table 4 classifies remittances policies according to objectives such as either increasing remittances inflows or increasing their effective use, although there are unavoidable overlaps between both objectives because it is not always possible to separate the impact of those policies.

Table 4 A Typology of Remittance Policies Implemented by Countries

General objectives	Policies	Instruments, projects, products	Goals	Country examples	Hurdles	Results
Increase inflow of remittances	Fiscal	Development bonds, diaspora bonds, infrastructure Development Bond (Nepal); Diaspora Social Investment Fund (Liberia), Diaspora Mutual Fund (Rwanda), First Investment Fund (Zambia).	Finance public investment, enhance relations with diaspora.	China, India, Bangladesh, Sri Lanka, Pakistan; Israel; Eritrea, Ethiopia, Lebanon, Philippines, Nepal.	Financial illiteracy, little awareness; need of tailored programmes to low and skilled migrants.	Vary. Good results for Israel and India ($40 billion raised), and Lebanon; still early to assess in others.
		Exemption from taxes and state inspections for migrant firms; tax-break for remitting thru banks; buy land at preferential prices.	Promote investment, savings.	Egypt; Moldova.	Benefit remittance receivers, not wider population; link with national development objectives.	No much evaluation (see also Alexander C. O'Neill 2001).
		Tax to remittances; reduction of national compulsory service of male migrants if paying 'fine' in foreign exchange; requirement of a percentage of earnings for government fund.	Increase fiscal revenues.	Ecuador, Peru, Georgia, Poland; Turkey; Viet Nam.	Reduction of remittances, tax evasion.	Increase informal remittances.
		Tax-breaks on imported capital goods; preferential access to import of capital goods and raw materials .	Promote investment.	Philippines; India, Pakistan.	Link with national development objectives.	No evaluation found.
	Financial (Monetary)	Preferential interest rates for savings and credit; interests exempt from income tax.	Promote inclusive finance, facilitate seed-investment, home ownership.	India, Bangladesh, Sri Lanka, Pakistan, Tunisia; Albania.	Financial illiteracy; links with national development objectives.	No evaluation found.
		Preferential exchange rates; "inter-bank exchange rate"; reduction of commission rates, monitoring units in banks.	Promote investment, lower transfer cost.	India, Bangladesh, Sri Lanka, Pakistan, Mexico.	Links with national development objectives.	Good.
		Foreign currency accounts.	Promote inclusive finance, investment.	India, Bangladesh, Sri Lanka, Pakistan, Nepal, Tunisia, Guatemala.	Links with development objectives.	Good.
Increase inflow of remittances	Institutional	Governments set up Migrant service bureaus, official representations; international money transfers go thru Central Bank or controlled by state; business advisory services; bank counselling on local investment opportunities; dual citizenship.	Support investment; enhance relations between government and diasporas; regulate foreign exchange flows and trade.	Albania, Philippines; Brasil, Viet Nam; Pakistan; Thailand; Colombia, Costa Rica, Dominican Republic, Ecuador, Peru, El Salvador, Mexico, Panama, Uruguay, Kenya.	Governments are prone to "moral hazard"; alienation from policies on dual-nationality and political inclusion.	A good start; mainly to use the economic potential of diasporas, not their political influence.

Improve effectiveness of remittances' use	Fiscal (with regional and local support)	Matched funding: local or federal government allocate $2 or more for every $1 invested in community of origin to finance various infrastructure; training remittance-receiver entrepreneurs and migrants, provide technical assistance to start-up businesses.	Promote community development (remodel churches, schools, purchase small fire trucks); encourage migrant associations and individual migrants to invest .	Mexico, El Salvador, Guatemala, Costa Rica, Peru, Nicaragua, Brasil, Bolivia, Colombia, Ecuador, Uruguay, Dominican Republic, Argentina, Guyana.	Federal organization decides projects, not the HTAs; HTAs are not investment groups; difficulty identifying businesses with link to diasporas. Scale up of projects. Executing agencies need business expertise.	Technical assistance provided to start-up businesses. Good at local level, no much impact at regional and national levels.
	Financial	Loans to families using remittances as guarantee; housing loans (mortgages).	Promote inclusive finance; access to real estate.	Moldova, Guatemala, Peru, Mexico, Colombia, Ecuador, El Salvador.	Benefit remittance receivers, not the rest of population. Scaling-up. Loan repay (higher amounts and longer terms than other loans).	Financial inclusion of senders and receivers; increase home ownership; inclusion of remittance flows in loans is now widespread.
		Bankarization: electronic transfers, microfinance, certificate of deposits; "remittance transfer cost calculator"; "Red de La Gente"; "Beneficiary Account Registration"; Federation of Associations of Savings and Credit Cooperatives.	Promote inclusive finance; banks' partnerships and bilateral agreements in remittance markets; lower transfer costs.	Nepal, Mexico-USA, Albania-Greece/Italy; Colombia, Mexico, El Salvador, Guatemala, Philippines, Dominican Republic, Ecuador, Nicaragua, Bolivia, Haiti, Peru, Paraguay, Honduras.	Governance capacity-building needs; liquidity management; profitability of remittance-transfer services in small entities. Scaling-up.	Financial inclusion and education of senders and receivers; increased access of MFIs to remittance flows; design of new products (savings account linked to debit cards; housing and business loans); build trust in financial institutions.
		Development Immigrant Bank as part of national development strategy; immigrant welfare funds.	Leverage use of remittances and their multiplier effects.	Bangladesh.	Integration of immigrant bank within national development plan.	Still early to say.
		Securitization (used at least once by one of the countries).	Use remittances flows as collateral for loans.	Brazil, Turkey, El Salvador, Panama, Jamaica, Colombia, Kazakhstan, Arab Republic of Egypt, Russian Federation, South Africa, Republic of Korea.	Sovereign risk during crisis periods.	Fairly good, still on experimental phase. Larger potential.
		Insurance for non-migrant relatives (health, life); pension funds, saving packages; tourism packages.	Support social development.	Guatemala.	Scaling-up.	Good at micro level.
	Institutional	Assistance to institutions to improve policy, legal and regulatory frameworks for remittance transfers and their use, establishing standards and practices.	Boost competitiveness (reduce transfer cost) and more accurate assessment of remittances flows.	India, Mexico, El Salvador, Albania, Honduras, Brasil, Colombia, Guatemala, Haiti.	Institutional implementation.	Reduced transfer cost to 5 per cent in Latin America-US and Latin America-Spain corridors (for $200 remittances); governments are more aware of amount of remittances (periodic and more accurate measurements).
		Financial literacy through education programmes, information; training to set up micro-businesses; National Action Plan on Remittances (improve data, expand banking, develop partnerships between banks and those in the main destination countries).	Strengthen financial depth, increase knowledge of formal remittance channels and formal banking sector.	Albania, Moldova, Mexico, Brazil, Colombia, Haiti, Nicaragua, Peru, Dominican Republic, Costa Rica.	Extend programme to non-receiving families.	Good, but market demand for financial literacy is still unattended.
		Immigrant resource centres.	Information on remittances transfer options, negotiate lower costs with MTOs and speed up transfer, inform on investment opportunities, fund schools construction, social infrastructure.	Philippines, Republic of Congo, Tajikistan.	Political influence.	Fairly good at micro level.

Source: Author's elaboration.

In principle, remittances policies can be classified as fiscal, financial, and institutional. The importance of fiscal and monetary policies for development has been underscored by Philip Arestis (2011). The review of the remittances literature suggests that there are only 44 countries that have implemented some kind of remittances policies, which represent about a third of all developing countries receiving remittances.

Fiscal and financial policies are the most common used to increase remittances flows, while financial and institutional policies are the most often used to improve remittances effectiveness. In the former case, the instruments used include development bonds, various kinds of tax incentives to import fixed capital or remit through the banking system as well as preferential interest rates, exchange rates, and the set up of foreign currency accounts; while in the latter case the main objectives are to promote investment and inclusive finance. The complexity of exchange rates policies for emerging and transition economies, for example, can be found in Celine Gimet (2011).

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

The main hurdles for remittances policies have to do with the need of capacity building and the scale-up of microfinance programmes. Capacity building includes the areas of project design, IT training, and management skills. Also, much focus on investment in microenterprises has overlooked the access to bigger finance by small firms. An indirect effect of this has been the inadequate attention to the links between local, regional and national as well as a higher probability that microfinance programmes stayed isolated from broader development objectives and thus with not enough funding.

The various motivations for sending remittances shed light on the diversity of immigrants' priorities and interests, which provide input for integrating them within broader strategies of development. Setting up businesses, purchase real estate, acquire durable goods, invest on capital goods, and support households' food consumption, education and health spending (in both rural and urban areas) would indicate migrants eagerness to support social and economic development projects. State support in those sectors can leverage the finance potential of remittances with policies that can scale up local and regional development projects and effectively merge local development with broader developmental goals.

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

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

3.2 A National Development Bank to Harness Immigrants' Interests

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

More specifically, the National Development Bank would mainly serve to:

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

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

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

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

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

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

4. Conclusions

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

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

A national development bank can be the catalizer for harnessing public and private interests on remittances, support the scale up of remittances investment programmes, and build-up partnerships with regional and multilateral development institutions supporting remittances as development finance.

The role of remittances as a source of development finance should not be magnified. As countries develop their importance in total resource flows decrease, with the share of domestic and other external resources (e.g. FDI) rising in importance.

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