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Article

International remittances: A source of development finance

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Migration has been an important issue in human history. In recent years, the pace of international migration has been phenomenal due to trade liberalisation, deregulation of restrictive measures and the development of transportation facilities, communication network and global cultural integration. As a result international migration has become a major concern for policy makers of labour sending as well as labour receiving countries. While countries are worried about the leakage of intelligence through migration, the contributions of international migration in the form of remittances to the economies of several less developed countries are worth noting. The remittances from migrants working abroad are important for both families of migrants and the balance of payment of their home country. While remittances contribute significantly to the welfare of the migrant households, it also has a considerable impact on GDP as well as foreign exchange earnings of developing countries. Remittances are now close to triple the value of the official development assistance (ODA) provided to low-income countries and comprise the second largest source of external funding for developing countries after foreign direct investment (FDI). Remittances have emerged as the least unstable source of financial flows for countries afflicted by shocks and constitute the single most important source of insurance for many poor countries. Evidence collected by the World Bank indicates that when a country encounters political or economic difficulties, citizens who are living and working abroad support their compatriots by increasing the amount of money they send. Against this background the present paper discusses various aspects of international remittances and its contribution to development finance.

Key words: International migration, remittances, economic impact, development finance.

INTRODUCTION

Migration has been a process in human history from time immemorial. The political, economic and social factors around the world have driven millions of people abroad from their home countries. These factors can be grouped into two categories namely; “push” factors and “pull’ factors. Wars, social insecurities, natural calamities and political uncertainties are the push factors. At the same time factors like employment, higher wages, better living standards and better working conditions have been the major pull factors of migration.

The major shift in migration trend can be noticed after the industrial revolution and colonization. According to Kondapi, the abolition of slavery in the British Empire in 1834 and the consequent acute shortage of agricultural workers for employment in the sugar plantations of Mauritius, British Guyana, Trinidad and Jamaica paved the way for a system known as export of indentured labour (Zachariah et al., 2003). Similarly the industrial revolution attracted workers from poor countries to work in textiles, chemicals and engineering industries of most of the European countries (Singh, 2001). The oil boom in the Persian Gulf during the 1970s, gave rise to massive emigration to Arab countries from Africa and Asia. All these developments have resulted in a new paradigm shift in the international labour market. Very recently, trade liberalization, disintegration of restrictive measures, development of transportation facilities, improvements in communication networks and growing global cultural integrations have added new impetus to the pace of international migration.

Though the recent globalisation process has supported to create wealth and has helped to lift millions of people from poverty, it has not yet narrowed the gap between rich and

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Table 1. Estimated number of international migrants at mid-year from 1960-2005.

Year	Estimated number of international migrants at mid-year (both sexes)	International migrants as a percentage of the population	Estimated number of male migrants at mid-year	Estimated number of female migrants at mid-year	Female migrants as percentage of all international migrants
1960	75 463 352	2.5	40 135 120	35 328 232	46.8
1965	78 443 933	2.4	41 525 601	36 918 332	47.1
1970	81 335 779	2.2	42 908 824	38 426 955	47.2
1975	86 789 304	2.1	45 684 990	41 104 314	47.4
1980	99 275 898	2.2	52 391 759	46 884 139	47.2
1985	111 013 230	2.3	58 648 512	52 364 718	47.2
1990	154 945 333	2.9	78 977 842	75 967 491	49.0
1995	165 080 235	2.9	83 683 620	81 396 614	49.3
2000	176 735 772	2.9	88 978 168	87 757 603	49.7
2005	190 633 564	3.0	96 114 953	94 518 611	49.6

Source: United Nations, 2006.

Table 2. Continent wise migrants stock in 2005.

Continent	Migrants stock (million)
Europe	64
Asia	53
Northern America	45
Africa	17
Latin America	7
Oceania	5

Source: United Nations, 2006.

rich and poor and in some cases economic inequalities is increasing. A large share of the world's population in developing countries still lives under poor economic, social and political conditions. Due to these facts, many people around the world look for better job opportunities beyond the borders of their own country. At the same time, many developed countries around the world, find it difficult to maintain the existing levels of economic productivity due to lack of human resources. Therefore, the continued economic prosperity of these developed countries will partly depend on international migration. Migrants are helping to fill the gap between the demand for and supply of labour in these countries.

According to the United Nations, in 2005, 191 million persons, representing 3% of world population, lived outside their country of birth compared to 75 million persons or 2 $^{1}/_{2}$% of the world's population in 1960 (Table 1). Majority of the migrants live in more developed countries like the USA, European and Middle Eastern countries. In developed countries, one in every ten persons is a migrant and these migrants account for 60% of total migrants in the world.

Almost half the world's international migrants are women (Table 1). Around 51% of migrant women live in the developed world, compared to 49% in the developing world. There are more female than male international migrants in Latin America and the Caribbean, North America, Oceania, Europe and the former USSR (GCIM, 2006).

By continent, most of the world's migrants live in Europe, followed by Asia and Northern America. The stock of migrants in Europe in the year 2005 was 64 million and in Asia and Northern America, 53 and 45 million respectively. Female migrants accounted for nearly half of the total international migrants around the world and in developed countries they outnumber male migrants (Table 2).

INTERNATIONAL MIGRATION AND REMITTANCES

The direct impact of migration is remittances. Recently much attention has been given to the role of remittances in the economic development of developing countries. Many studies have been conducted by various scholars and agencies to measure the volume of remittances and its utilization by migrant households at the destination countries. International agencies like the United Nations and International Monetary Fund have continuously published data on the volume of remittances.

Remittances are generally defined as that portion of migrants' earnings sent from the migration destination to the place of origin. Remittances can be sent in cash or kind (Solimano, 2003). But, usually the term remittances is limited to indicate monetary and other cash transfers by immigrants to their families at the home country. Remittances reflect local labour working in the global economy and are shown to explain partly the connection between growth and integration with the world economy (Adison, 2004). According to a World Bank report, workers remittances provide valuable financial resources to developing countries, particularly the poorest (World Development Finance, 2005). The remittances from migrants working abroad are important for both families of migrants and the balance of payment of their home country. The remittances contribute significantly to the gross domestic product as well as foreign exchange earnings of developing countries. The decision to remit, however, depends on a variety of variables. Besides the demographic characteristics of emigrants, that is age, sex, marital status, number of dependents and links with family at the country of origin, the occupational status of emigrants plays an important role in determining the amount of remittances sent home.

One of the major determinants is worker's occupational status abroad. Workers of low occupational status who live in poor living conditions in the country of destination do not often take their families abroad. Therefore their propensity to save from their income is high and these savings are generally remitted to their families in their home countries upon which these families live in the absence of migrants. On the other hand workers of higher occupational status generally take their families to the country of employment and hence, they are not obliged to remit their savings to their home country.

The decision to remit is also dependent on a variety of macroeconomic policy variables. Interest rates, exchange rates and income tax are the variables which affect the decision of emigrants to remit. The choice of emigrants to remit their savings through formal and informal channels also depends on the relevance of these variables.

Benefits of remittances to the countries of origin are many. Remittances may improve income distribution and quality of life beyond what other available development approaches could deliver, especially if the poor, unskilled labour emigrated. Most studies about remittance uses found that remittances are spent on current consumption, health and education, thus leading to improved standards of living for emigrant households compared to non-emigrant households. Ballard examines the economic impact of remittances in India and Pakistan. He analyses the impact at national and local levels and found that the standard of living of the inhabitants of areas of migration are higher than non-migrant areas. Migrants' savings in the banks serves as a means of financing loan to custommers living elsewhere (Ballard, 2005). Zarate in his study reviews the magnitude of remittance flows and also examines the consumption pattern of remittance receiving households in Mexico. He is of the opinion that the remittances are not limited to migrant households but extend to entire communities (Zarate, 2005). On the domestic front, remittances increase household income of migrant families, improve living standards enhance savings and generally contribute to national economic growth (Azad, 2005).

The most important outcome of remittances is their effect on the balance of payments of the countries of origin. Remittances relax foreign exchange bottlenecks of labour sending countries and improve their current account position. Balance of payments of many third world labour exporting countries has become increasingly dependent on the inflow of foreign exchange funds remitted by emigrants working abroad. Remittances are a strong source of foreign exchange for labour sending countries used to pay import liabilities, improve the balance of payments, build foreign exchange reserves, service external debt and enhance the viability of the recipient countries external section (Azad, 2005). Orozco analyses the impact of remittances on transportation, tourism, telecommunication and trade and observes that migrants have become a new market for exports from their home country (Orozco, 2005). Though most of the studies conclude that major portion of remittances is used for construction of houses, it is also observed that remittances spent on housing can create jobs in construction. At the same time, expenditure on consumer goods can stimulate other domestic industries and the remittances spent on basic needs like education, health and entertainment will have welfare effects on the economy (Singh, 2001).

Compared to past experiences, there has been a remarkable expansion in the volume of remittances sent home by international migrants. There are nearly 200 million international migrants with formal transfers of remittances of about $160 billion in 2004 which is a 50% increase in just 5 years (World Bank, 2005). Perhaps $300 billion is additionally transferred informally (GCIM, 2005). Among all countries in the world, India receives the highest amount of remittances which amounted to $21.7 billion in 2005. The second largest remittance receiving country is China followed by Mexico, France and Philippines. The remittances to these countries are $21.3 billion, $18.1 billion, $12.7 billion and $11.6 billion respectively (Table 3).

Remittances are now close to triple the value of the official development assistance (ODA) provided to low-income countries and comprise the second largest source of external funding for developing countries after foreign direct investment (FDI) (GCIM, 2005). Kapur observes that remittances have emerged as the least unstable source of financial flows for countries afflicted by shocks and constitute the single most important sources of insurance for many poor countries (Kapur, 2005). The best example for this argument is that during the Asian financial crisis, remittances continued to increase even as flows of FDI fell. Evidence collected by the World Bank indicates that when a country encounters political or economic difficulties, citizens who are living and working abroad supports their compatriots by increasing the amount of money they send. The remittances sent by migrants have increased by three times in the year 2004 compared to 1995. At the same time, FDI has shown only a marginal increase during the same period (Table 4).

DEVELOPMENT THROUGH REMITTANCES

Although economic motivations of migration have long been recognized; the economic development effects of

Table 3. Top 20 remittance recipient countries, 2004.

Country	Remittances in billion $
India	21.7
China	21.3
Mexico	18.1
France	12.7
Philippines	11.6
Spain	6.9
Belgium	6.8
Germany	6.5
United Kingdom	6.4
Morocco	4.2
Serbia	4.1
Pakistan	3.9
Brazil	3.6
Bangladesh	3.4
Egypt	3.3
Portugal	3.2
Vietnam	3.2
Colombia	3.2
United States	3.0
Nigeria	2.8

Source: Global economic prospects 2006, World Bank.

Table 4. Recorded remittances have grown faster than private capital flows and (ODA $ billion)

Source of funding	1995	2004
Workers' remittances	58	160
Foreign direct investment	107	166
Private debt and portfolio equity	170	136
Official development assistance	59	79

Source: Global economic prospects 2006, World Bank

migration on countries of origin and destination are only recently coming into focus. At present, remittances are the most tangible and perhaps the least controversial level between migration and development (Ratna, 2007). Remittances play an important role in the development of households at micro level and development of community or country at macro level.

Though remittances can improve the standard of living such as housing, education, health and esteem needs at the household level, for countries, remittances have become the cheapest source of development finance. It is been argued by general studies that remittances provide capital to small entrepreneurs and there by entrepreneurship. (Ratha, 2007). Figure 1 shows the links between remittance usage at present, and 'development' and consumption in the future. If remittances are invested or saved instead of present consumption, it would generate future streams of income for future consumption. Based on the available literature, the range of productive investment

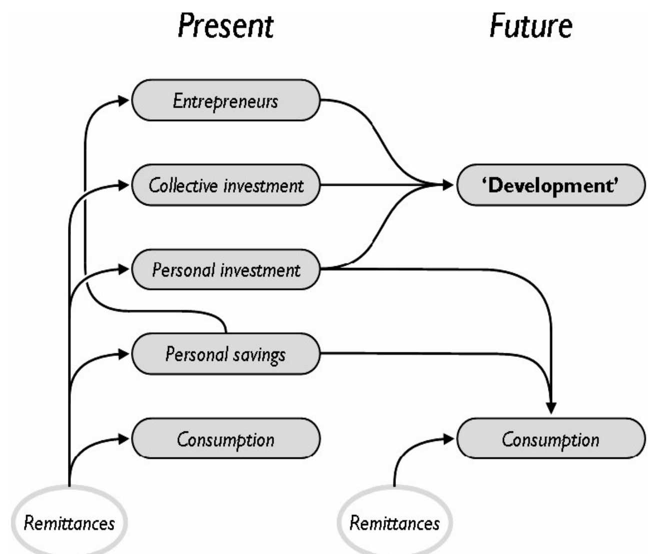

Figure 1. Remittance-development linkages (Carling, 2004).

investment portfolios can be summarized under 5 categories:

(1) Savings strategies.
(2) Location-specific capital ventures.
(3) Human capital resource investments.
(4) Diversified microeconomic investments.
(5) Community support, maintenance and sustenance.

Volume of investment or savings of present remittances depends on the volume of remittances, sources of other income and spending behaviour of the remitter and his household. The remittances saved in banks and financial institutions can increase credit availability in the remittance receiving country and can provide finance to entrepreneurs which in turn cause positive impact on development. The impact on development does increase when migrants or their household members invest the remittances in profitable ventures. "When migrants do invest, their emotional attachment to their (often marginal) regions of origin can help compensate for the disadvantages of these regions in the eyes of purely profit-seeking investors" (Jorgen, 2004). For example, the contribution of migrants from Kerala, a southern most state in India, to development can be seen in various areas like housing, transportation, town planning, educational and religious institutions, amenities and other infrastructural facilities (Begum and Azeez, 2005).

Remittances can improve countries credit worthiness and thereby enhance its access to international capital markets (Ratha, 2007). Properly accounted currency remittances, can improve a country's risk rating. In turn the improvement in risk rating would enable these countries to borrow at lower cost in international markets. Based on future remittance flow, banks in remittance relieving countries are able to borrow long-term financing at lower costs from international markets through the securitization

Table 5. A list of policy measures to enhance the development impact of remittances.

Objective	Measure
Capturing a share of remittances for development purposes.	Taxation of emigrants; duties or levies on remittances transfer; voluntary check-off for charitable purposes (on transfer forms).
Stimulating transfers through formal channels and/or stimulating capital availability.	Remittance bonds; foreign currency accounts; premium interest rate accounts; promoting/enabling transfers through microfinance Institutions (MFIs).
Stimulating investment of remittance.	Promoting financial literacy/banking the unbanked; outreach through MFI infrastructure; outreach through migrants' service bureaus; tax breaks on imported capital goods; SME schemes (financial, infrastructural or innovative)*1; training programmes.
Outreach to migrant collectives/hometown associations (HTAs)*2.	Matched funding; public-private ventures; competitive bidding for development projects.

Source: Carline (2004). Notes:*1-schemes to support small and medium enterprises; *2- migrant collectives can also benefit from policies for stimulating the investment of remittances.

of expected remittance flows. Solimano (2003) opined that remittances are currently the second most important source of external finance to developing countries after foreign direct investment. He further asserts that remittances have a potential positive impact as a development tool for the recipient countries. Harris (2005) states that remittances have become a major component in the foreign exchange earnings of a number of countries. He states further that temporary circulatory migration for the purpose of training would seem to be the best outcome, so that migration becomes a means to enhance human capital of developing countries for the task of reducing world poverty.

For decades the governments of remittance receiving countries have been involved in extracting maximum developmental benefits from remittances of migrants. International organizations like the World Bank, IMF, ILO, IOM, UN and so on, through their researches have recommended many policy measures to utilize remittances for developmental activities. These policies are summarized in the Table 5.

In a conducive economic and investment climate, remittances provide an easy source of capital to small and medium entrepreneurs which in turn reduce the credit constant and increases the essence of entrepreneurship, leading to better remittance management. So it is important that governments of remittance receiving countries should develop various measures to attract uses of remittances towards productive investments. Brown P (1994) states that, "where opportunities arise, remittances are used for investment and can be investment motivated. Even when the migrants does possess the necessary entrepreneurial potential, if the general investment climate in the remittance relieving economy is not conducive to entrepreneurial ventures, it cannot be expected that the migrant will be willing to risk his or her capital in an investment in the domestic economy when much safer alternatives exist else where". According to the report published by GCIM (2005), measures to encourage the transfer and investment of remittances must be combined with macro-economic policies in countries of origin that are conducive for economic growth and competitiveness. Therefore a good investment climate is likely to ensure that a larger share of remittances is invested in physical and human capital. Remittances also promote financial development, which in turn can enhance growth.

Conclusion

Migration has affected the process of economic growth and enriched many cultures and civilizations around the world. In the new world of globalisation, where states, societies, economies and cultures in different regions are increasingly integrated and interdependent, international migration continues to play an important role in national, regional and global affairs. During the past 30 years the proportion of foreign-born residents living in developed countries has tremendously increased and 60% of total migrants are found in these countries. According to the United Nations, there are nearly 191 million international migrants in 2004 representing 3% of world population, who sent home remittances worth about US$160 billion. United States of America is the largest host country for international migrants with 35 million migrants which account for 20% of the world's migrants. The main originator of international migration is China followed by India. These two countries share the largest portion of total remittances worldwide. The share of India and China in total remittances is US$ 21.7 and US$ 21.3 billion respectively. The remittances sent home by the migrants effect development at both house hold and national levels. At the household level, remittances help to reduce poverty, improve standard of living and attain higher educational levels. At the macro level remittances could be used for entrepreneurship and productive investment which in turn increases job opportunities and income of people in the remittance receiving countries. At the same time, remittances help to improve foreign exchange reserves of labour sending countries and improve their current account position. Balance of payments of many third world labour exporting countries has become increasingly dependent on the inflow of foreign exchange funds remitted by emigrants working abroad.

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