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Migrant Worker Remittances, Micro-finance and the Informal Economy: Prospects and Issues

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Foreword

There is a renewed interest in migrant worker remittances, in part triggered by the Asian financial crisis which saw in its wake thousands of migrant workers expelled from host countries. In the past remittances attracted the interest of policy-makers and researchers as one argument amongst many others to illustrate the expected real net social benefits of international labour movements: now remittances are also seen in connection with micro finance. While substantial in the aggregate, remittances are often transactions of small individual size; also, the transmission channel is sometimes informal, unregulated and parallel. There is extensive anecdotal evidence of money couriers who transport money on behalf of the migrant worker from the country of residence to the country of origin.

This renewed interest has motivated the ILO's Social Finance Unit to probe into two controversial issues relevant for policy-makers and migrant workers themselves. The first issue is the selection of the transfer channel: what dictates the choice between a bank transfer and an informal money courier? Does the preference make sense for the individual migrant worker? What are the risks involved? What is the cost to society? The second issue is the question of whether public authorities can and should influence the direction of migrant worker remittances towards investment in enterprise creation: is there a scope for that? What is the record with previous attempts to influence the direction of remittance' flows? Do fiscal or other incentives work?

This paper by Shivani Puri and Tineke Ritzema seeks to throw light on these issues. It builds on earlier work on this theme by P. Sparreboom (SFU Working Paper No.16). Migrant worker remittances have a central role in the work of the ILO on micro-finance: it has an international dimension, it is of growing relevance in view of the increasing number of migrant workers (legal and illegal) and it contributes substantially to the national income of many poor countries. Moreover, informal migrant worker remittances illustrate the lack of suitable financial institutions that can capture and manage such payments safely and cost-efficiently, a gap in the institutional landscape with substantial losses to society.

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Abstract

The *conventional* approach to analysing the impact of remittances on the domestic economies of labour-sending countries focuses exclusively on *officially* recorded flows and their effects on the various economic aggregates in the formal economy. While it is widely acknowledged that officially recorded remittances usually fall short of actual overseas savings (potential remittances) of migrant workers and that the difference is of particular significance in countries which have trade and exchange-rate restrictions and unstable domestic economies, the true magnitude of *unrecorded* remittances and their economic implications have received comparatively little attention. There is anecdotal evidence that only a fraction of the unrecorded remittances represent “pure leakages” and that the largest part are remitted through informal channels to finance domestic consumption, investment and foreign trade transactions in the migrants’ country of origin.

Unrecorded remittances have become one of the most critical dimensions of the remittance systems in many Asian and Arab economies. This paper attempts to disentangle and disaggregate the characteristic features of the web of recorded and unrecorded remittances. The paper reviews various systems that seek to channel unrecorded remittances through formal banking channels. It also looks at policy measures geared to influence and optimize their use in the domestic economy of these countries. Finally, the potential role of micro-finance with regard to the scope for linking unrecorded remittances and investment is evaluated.

A major finding of this paper is that remittance leakages are, to a significant extent, a reflection of the macroeconomic policy regimes of labour-sending countries. Therefore, a *first-best* solution to the problem of increasing their developmental significance would be to implement wide ranging policy reforms aimed at setting the *macroeconomic house in order*; a *second-best* solution would be to encourage remittance inflows through official channels by using micro-finance tools and improving the existing banking network to effectively compete with informal market arrangements so as to channel the funds into productive investment.

1. Introduction

Remittances, the portion of international migrant workers' earnings sent back from the country of employment to the country of origin, play a central role in the economies of many labour-sending countries and have become a focal point in the ongoing debate concerning the costs and benefits of international migration for employment.

The main sources of official data on migrants' remittances are the annual balance of payments records of countries, which are compiled in *the Balance of Payments yearbook* published by the International Monetary Fund (IMF). Global estimates of official remittance flows based on these balance of payments statistics suggest that remittances increased from US$ 43.3. billion in 1980 to US$ 70 billion in 1995 (Russell, 1992). Although the data based on migrants' remittances have several deficiencies[1] (for a review see, Athukorala (1993), Swamy (1981), Brown (1995)), they suggest that, for a number of countries, the level of remittances is very significant in proportion to the country's merchandise exports (tables 1 and 2)[2]. As table 2 shows, in Bangladesh, remittances were equivalent to about 44 per cent of total merchandise exports in 1993; in India, about 13 per cent in 1990; in the Philippines, about 22 per cent in 1993; and in Pakistan, about 24 per cent in 1993.

The true value of remittances is likely to be much higher as only a portion of total remittances flow through *official* channels. It is now well documented that formally recorded remittances represent only the tip of the iceberg. Remittances sent through informal channels, e.g. self-carry, hand-carry by friends or family members or in-kind remittances of clothes and other consumer goods, are considerable in countries such as Pakistan, the Philippines, Sudan and Egypt where it is estimated that such remittances would be at least double or even triple the recorded figures (Abella, 1989)[3].

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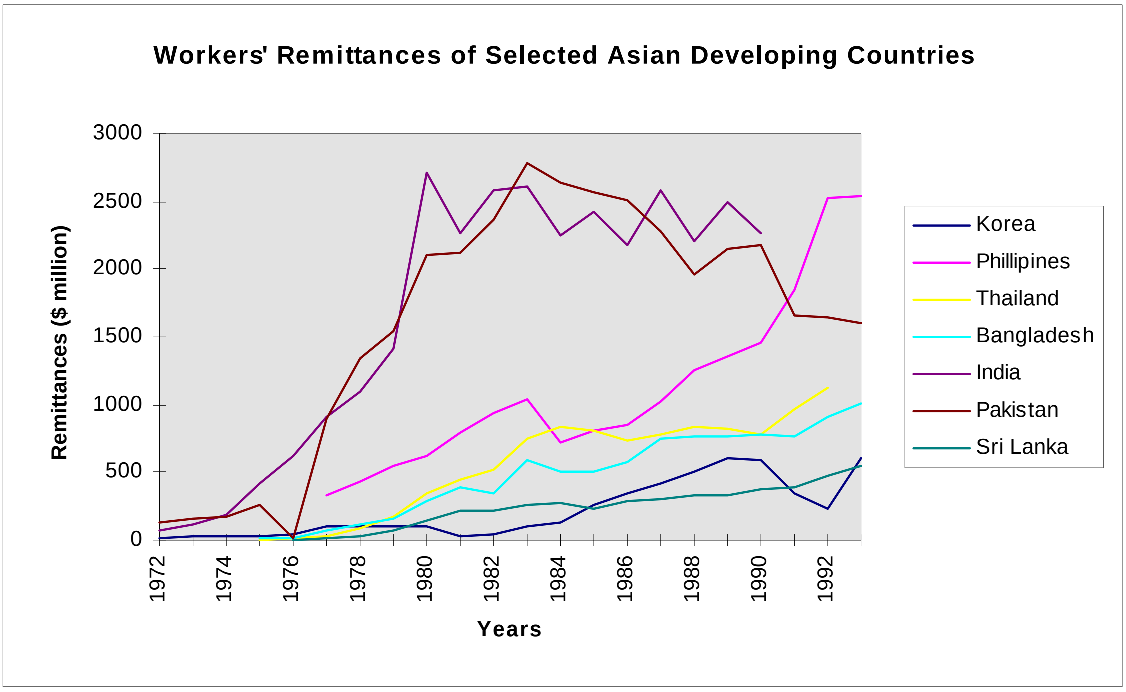
[1] For example, the Asian Development Bank (ADB) estimates that Asian countries alone received US$75 billion from workers abroad in 1995 compared with US$54 billion in official foreign aid.

[2] The significance of this role is frequently underscored by calculation of remittances as a percentage of the macroeconomic indicators such as gross national product (GNP), gross domestic product(GDP) or government expenditures. The most meaningful comparison is with exports and imports, a comparison which stresses the relative contribution of remittances to foreign exchange earnings, the importance of the "labour export industry" and the role of remittances in the country's ability to pay the import bill.

[3] Throughout the paper the terms "informal" and "unrecorded" are employed interchangeably. For a useful attempt to define and demarcate these terms more carefully, see Lindauer (1989).



Particularly over the last decade, the growing importance of these unrecorded remittances has generated a small number of studies designed to explore their dimensions, determinants, uses and effects and the government policies designed to influence them. This fragmentary evidence warrants a review in its own right. Moreover, recent evidence suggests that remittances are levelling off, even declining, due to the Asian financial crises[4]. It is timely to review the available evidence and to identify gaps in our understanding of *unofficial* remittances. The purpose of this paper is to assess remittances with a view to their relevance for small-scale investments, self-employment, job creation and social protection.

The paper is organized as follows: section 2 below provides an overview of the literature on unrecorded remittances reviewing some of the key questions about them: what are the forms of unrecorded remittance flows? What are reasons for remittance leakages? Section 3 reviews the determinants of remittance flows. Section 4 assesses the uses of remittances: recorded and unrecorded. Section 5 undertakes to assess policy measures to attract remittances and to influence their domestic uses — with a particular focus on the potential role of micro-finance in linking unrecorded remittances to development. Finally, section 6 provides policy recommendations to enhance the benefits and reduce the costs of such remittances, whilst suggesting areas for future research. The focus of the paper is principally on the Asia-Pacific region, Sudan and Egypt, where labour migration across national boundaries is a salient feature of the formal economy and the attendant capital inflows are largely unrecorded, but it also draws on other country experiences.

[4]According to the ILO(March, 1999), migrant workers have borne a particularly heavy burden thus far. The number of migrants in the East Asian region is estimated to have dropped by about 1million since the crisis began as job prospects dwindle and other migrants are returned home. In Thailand the number of migrant workers had declined by 460,000 by mid-1998, in Malaysia by 400,000 and in the Republic of Korea by about 117,000. The report also states that women migrant workers, whose activities are concentrated in the service sector, domestic work and the entertainment industry, are likely to have been sorely affected.

Table 2: Flow of workers' remittances and its share in imports and exports of goods in selected labour-exporting countries

	1980			1985			1990			1993		
		As a percent of			*As a percent of*			*As a percent of*			*As a percent of*	
Country	*Remittances*	*Exports*	*Imports*	*Remittances*	*Exports*	*Imports*	*Remittances*	*Exports*	*Imports*	*Remittances*	*Exports*	*Imports*
Bangladesh	286	36.1	12.2	502	50.2	22	779	46.6	23.9	1004	44.1	28.2
India	2715	32.7	19.5	2427	25.6	16.1	2263	12.4	9.7	-	-	-
Indonesia	-	-	-	61	0.3	0.5	166	0.6	1.2	346	0.9	1.2
Korea, Rep.	100	0.6	0.5	265	1	1	597	0.9	0.9	605	0.7	0.8
Pakistan	2108	82.1	38.7	2573	97.2	43.8	2175	40.4	26.9	1602	23.7	17.2
Philippines	613	10.6	7.9	805	17.4	15.8	1460	17.8	12	2542	22.3	14.4
Sri Lanka	139	13.1	7.5	233	17.7	12.7	369	19.9	15.9	551	19.8	15.6
Thailand	348	5.4	4.2	809	11.5	9.6	774	3.4	2.6	-	-	-

The analysis of this paper has important policy implications for the ILO. The protection of the rights of migrant workers has always held an important place among the ILO's normative activities. Indeed, the Preamble of the ILO's Constitution identifies the defence of the rights of migrant workers as one of the Organization's priority concerns. Moreover, the Director General's Report to the ILC 1999 ("Decent Work") signals that in the next biennium (2000/1) "ILO activities will reflect the growing importance of labour migration in the global economy" (p:38). This concern is articulated through Conventions and Recommendations: Convention N/ 97 (revised 1949) concerning migration for employment, and Convention N/ 143 (1975) concerning migrations in abusive conditions and the promotion of equal opportunity and treatment of migrant workers.

Table 3: Normative instruments concerning migrant workers

C.97	Convention concerning migration for employment.	(revised 1949)
R.86	Recommendation concerning migration for employment.	(revised 1949)
R.100	Recommendation concerning the protection of migrant workers in underdeveloped countries and territories.	1955
C.143	Convention concerning migrations in abusive conditions and the promotion of equality of opportunity and treatment of migrant workers.	1975
R.151	Recommendation concerning migrant workers	1975
C.118	Convention concerning the equality of treatment (social security)	1962
C.157	Convention concerning the maintenance of social security rights	1982
R.167	Recommendation concerning the maintenance of social security rights	1983

2. A new view: focussing on unrecorded remittance flows

2.1 Forms of unrecorded remittance flows

It is now widely acknowledged in the literature that officially transferred remittances as published in the recipient countries balance of payments grossly underestimate the actual level of remittances. The degree of under recording varies from country to country. There are two types of leakages: one due to erroneous, imprecise *accounting*, and the other due to the choice of *informal*, unsupervised channels for remittances. It has become accepted practice to treat all informal remittances (table 4) as foreign exchange leakages from the labour exporting country; but this practice is erroneous because these “leakages” also include remittance items such as (1) “personal imports” of migrant workers (i.e. goods imported by return migrants under the duty free allowance facility or brought along with them under personal baggage/gift facilities)[5] and (2) the savings brought home on return (in the form of cash or traveller’s cheques) subsequently converted into local currency at domestic banks[6](Athukorala, 1993). There is evidence that these two forms of unrecorded remittances are likely to be quite significant, particularly for low-income migrants, who usually account for the bulk of remittents. According to the findings of a recent survey on Overseas Workers in the Philippines, they account for 42% of total worker remittances (Table 5). Some tentative estimates available for Sri Lanka (Rodrigo and Jayatissa 1989, p. 259), Pakistan (Kazi, 1989, p.190) and Bangladesh (Mahmud 1989, p. 65) show that their combined share in total remittances could be between 10 to 15 per cent.

The *actual* leakage of remittances (as against “accounting” leakages noted above) takes three forms (Athukorala, 1993). First, some migrant workers retain part of their savings in personal accounts with overseas banks for purposes such as meeting children’s educational expenses overseas and to be used in the event of subsequent permanent e-migration. This form of remittance is clearly a loss to the migrant’s country of origin. However, it does not seem to account for a significant portion of total remittances, as such practices are usually limited only to some migrant workers belonging to high income brackets (Amjad, 1989, p.13). Second, a part of the remittances hand carried (in the form of cash and travellers cheques) by return migrants may leak to the informal market for foreign exchange.

5 Saith (1989), notes that in some Asian countries a traveller can carry up to US$10,000 in foreign currency without having to declare it.

6 Personal imports become a debit entry (as part of total merchandise imports) in the balance of payments account, but the related credit entry comes under ‘errors and omissions’, rather than under migrant remittances. Foreign money, when converted into local currency would show up in the balance of payments accounts under tourist expenditure, thus leading to an under recording of migrant remittances.

Table 4: Unrecorded remittances as a percentage of total remittances

	Source	**Estimation Period**	**Estimate***
Bangladesh	Mahmud (1989)	1981-86	20
Korea	Hyun (1989)	1980-85	8
India**	ESCAP (1987)	1983	40
Egypt	Adams (1991)	1985-86	33
Philippines	Alburo, Abella(1992) Tan and Canlas (1989)	19901982	5055
Pakistan	ILO-ARTEP (1987)	1986	43
Sri Lanka	Rodrigo and Jayatissa (1989)	1980-1985	13
Sudan	Choucri (1984)	1984	85
Thailand	Tingrabadh (1989)	1977-86	18
Tonga	Brown and Connell (1993b)	1992-93	43
Western Samoa	Brown and Walker (1994)	1992-93	42

Note: * Derived as ((TR-RB) / TR)*100, where TR = total estimated remittances and RB = remittances through banking channels.
** Estimate represents remittance behaviour of migrant workers from Kerala only.
Source: Athukorala (1993) and various other sources.

Table 5: Philippines: Distribution of remittances by form and channel

1. Form of Remittance	**Remittances (per cent)**
a) Cash sent from overseas	58.0
b) Cash brought home	35.2
c) In-kind	6.8
2. Distribution of Cash Remittance by Channel	
a) Banks	53
b) Money couriers	40
c) Friends/Relatives	8
d) Save/Bring home	8
e) No answer	0
f) No. of responses	109

Source: Athukorala (1993) and Survey of Policymakers, POEA Functionaries (Philippine Overseas Employment Administration) and Overseas Filipino Workers, April 1998.

There are no direct estimates of the magnitude of this form of leakage for any of the sample countries. However, such leakages seem to constitute a major source of finance in the thriving parallel foreign exchange market in the Philippines (Abella,1989 and Alburo and Abella,1992). To the extent that they are used to finance restricted imports, such remittances, like formal remittances add to the level of economic activity in the country. Third, there are transfers by migrant workers through intermediary financial operators in the informal foreign exchange market. Under this method of remittance, the worker transfers a sum in foreign currency to an agent overseas under the agreement that the local currency equivalent determined at an agreed exchange rate (which is usually set *above* the official exchange rate) is transferred by the agent's local counterpart to the migrant's family or nominee. In this case the macro-economic impact on the economy is limited to the internal transfer of the monetary sum concerned. Where foreign exchange rules are restrictive, capital flight from the migrant's home country could create a strong demand for these types of remittances. These actual leakages into informal channels are a dominant aspect of migrant remittance behaviour in some countries like Pakistan, the Philippines, India, Sudan and Egypt but not in others like Sri Lanka, Thailand, Korea and Bangladesh. Estimates of the proportion of remittances sent through non-bank channels as stated earlier are reported in Table 4.

2.2 Reasons for remittance leakages

Leakages of remittances occur often for reasons of convenience. Where banking and foreign exchange facilities are inadequate, inefficient, or even destroyed, informal non-bank means of transfer may be used, regardless of transactions costs. Quibria (1986) and Quibria and Thant (1988) cite the case of Bangladesh where lack of banking facilities and unfamiliarity with banking procedures resulted in widespread use of unofficial channels.

Significant price differences between the remittance sending and receiving countries are another reason for leakages; sending or carrying remittances in the form of goods (remittances in kind) — either for personal use by the recipient or for resale in the informal market — are then a preferred remittance channel between the remittance sending and receiving countries. Kazi (1989) points out that this practice is widespread in the case of Pakistan where remittances in-kind amounted to an estimated 16 per cent of cash transfers for urban migrants and 11 per cent for rural migrants. In Sudan, as pointed out by Brown (1992), an estimated 80 per cent of unrecorded remittances was transferred in cash, the remaining 20 per cent was carried in the form of smuggled goods.

More commonly, however, informal foreign exchange markets are used when the remittance-receiving country's exchange rate is overvalued which acts as an implicit tax on those who remit money through official channels. Highly restrictive trade and exchange control systems in place also generate a demand for capital flight through under-invoicing of imports and smuggling. Financial repression, characterized notably by negative real interest rates on domestic savings, also drive money balances to foreign bank accounts.

In many Asian, African and Latin American countries, such informal foreign exchange markets are fuelled principally by migrants' remittances. Two notable examples are the

“Hundi” system used by Bangladeshi, Pakistani and Indian migrants (Kardar, 1992; Kazi, 1989; Saith, 1992) and the Philippines “Money Courier Industry” (Alburo and Abella,1992). According to estimates provided in ILO-ARTEP (1987), on average, almost 16 per cent of total remittances by Pakistani workers is leaked into the Hundi system, and this figure could be as high as 48 per cent for workers from some regions in the country where banking facilities are not widely available. Estimates provided for the Philippines in Alburo and Abella (1992, p. 59) suggest that some 27 per cent of migrant workers’ remittances occur through the informal network. In this market, money moves in both directions: into the labour-sending country from the migrant, and out of it on behalf of another economic agent who wants the foreign exchange. In practice the foreign exchange may not even enter the labour-exporting country. The informal forex market allows expatriate workers to remit home their foreign earnings at competitive rates, through efficient and speedy private intermediation, in direct competition with the formal banking system. Apart from providing a better rate of exchange, quick and convenient transfer of money, dealers in these markets also provide some other assistance and service of a personal nature.

2.3 Data issues: what do we know?

What are the implications of these unrecorded remittances for economic analysis? Some economists argue that inadequate data on unrecorded remittances, render economic analysis haphazard (Nayyar, 1992). It is true, data collection and reporting practices and procedures among labour-exporting and labour-receiving countries need to be improved. Yet, there are a few micro-level, survey-based studies on unrecorded remittances that may give rough indications for future, more rigorous macro-economic analysis[7].

Survey based micro-level data has been combined with official data sets to derive adjusted macro-level time-series data in the few recent studies of unrecorded remittances and their macroeconomic implications. ILO-ARTEP (1989) studies of remittances among Asian labour exporting countries estimated unrecorded remittance flows as a percentage of total remittances from 13 per cent (Sri Lanka) to 50 percent (Philippines):

a) Mahmud (1989), bases his adjustments to *Bangladesh’s* official remittance data on the survey data generated by the Bangladesh Institute of Development studies which surveyed 368 returned migrants, together with the survey of Rizwanul Islam undertaken for the World Bank (1981), which surveyed 277 recipients of remittances. From this, he calculated the level of “potentially remittable funds” as compared with the actual level to be approximately 20 percent;

b) In *Egypt,* Adams (1991) estimated that, for the period 1985-86, almost one-third of the total remittances entered the country in a way that was not counted in the official estimate of US$ 3 billion;

c) In *India*, ESCAP(1986) estimates the level of unrecorded remittances from migrant

7 For a discussion on the various limitations of these estimates, see Saith(1989), section 2.1.

workers in Kerala (only) to be in the region of 40 percent;

d) Kazi (1989) draws on two micro-level studies in making adjusted estimates of *Pakistan's* remittances; one by Gilani *et al.* (1981) which estimates the transfer of unrecorded remittances via the Hundi system (used by 48 per cent of migrants), hand-carried cash (used by 27 per cent) and remittances in-kind (used by 9 per cent); and the other by ILO-ARTEP (1987) which estimates that 43 per cent of total remittances are sent via unofficial channels;

e) Tan and Canlas (1989) estimate unrecorded remittances to the *Philippines,* drawing on two surveys of (1981 and 1982) to be 60 and 55 per cent of total remittances. Another survey for ILO-ARTEP undertaken by Alburo and Abella (1992), which surveyed returnee migrants and their usage of unofficial channels, estimates that the official data captures only 50 per cent of the total;

f) In the context of the remittance dependent economies of the *South Pacific*, Brown (1995), estimated that for Tonga and Western Samoa in 1992-93, the value of unrecorded remittances amounted to approximately 43 per cent and 42 per cent respectively, almost 75 per cent higher than previous estimates based on official data (Forsyth and Ahlburg, 1991);

g) For the *Sri Lankan* estimates, Rodrigo and Jayatissa (1989) follow two procedures for adjusting the official estimates; one which simply removes from the official figures non-migrant private transfers and adds to these estimated remittances in-kind based on the maximum duty free allowances for travellers plus foreign currency deposits held by migrants; and another which uses micro-level studies by the Sri Lankan Ministry of Plan Implementation and the Marga Institute (see Rodrigo and Jayatissa, 1989) which they then also use to adjust the projected official remittances estimate. For the period 1980-85, the estimated figure of unofficial remittances was approximately 13 percent;

h) In *Sudan*, Brown's (1992) study reveals that the incorporation of unrecorded remittances into the Sudanese national accounts for 1983-84 increases the proportion of net current transfers from 6 per cent to 45 per cent of the adjusted GNP. Other macroeconomic aggregates show similar increases. Net Factor Incomes are adjusted upwards to 17 per cent of adjusted GNP from 7 per cent of recorded GNP;

i) In the case of *Thailand*, Tingsabadh (1989) conducted four different surveys among returnees to estimate the level of unrecorded remittances and arrived at an estimate of 18 percent for the period 1977-86.

3. Determinants of remittances

Despite the important volume of these informal inflows in labour-exporting countries, astonishingly little work has been done on analysing the factors that affect the *volume*, *direction and forms of these informal remittances and whether and how policies can influence them.*

Remittances are considered to be influenced by the following factors:

- number of workers
- wage rates
- economic activity in the host country and in the sending country
- exchange rates
- relative interest rate between the labour-sending and receiving countries
- political risk
- facility for transferring funds
- marital status
- level of education of the migrant
- whether accompanied or not by dependents
- years since out migration and household income level.

A framework for clarifying the intermediate relationships between the determinants and effects of remittances is shown in Table 6 (Russell, 1986). As shown in the table, these factors affect the total pool of remittance income, the decision whether or not to remit, the amount to remit and the uses of remittance incomes. Factors that affect migrant workers' choice between the formal banking system and informal channels in remitting their earnings include: individual socio-economic characteristics of their household members, levels and type of economic activity in the sending and host countries, differential interest and exchange rates and the relative efficiency of the banking system compared with informal channels (Russell, 1992; Straubhaar, 1986).

A number of studies attempt to analyse the determinants of remittance levels with a view to gauging the potential responsiveness of remittances to policy interventions designed to encourage migrants to remit more. The best known of these is probably Swamy's study for the World Bank (Swamy ,1981) who examined the effect of several of these variables on remittance flows to Greece, Yugoslavia and Turkey. She found that the *level of and the cyclical fluctuations in economic activity* in the host countries explain 70 to 95 per cent of the variation in remittances flowing into labour-exporting countries. A more detailed analysis by Swami showed that the number of migrant workers abroad and their wages together explained over 90 per cent of the variation in inflow or remittances into these countries. Looking at per capita remittances instead of total remittances, the study showed that the length of actual or expected stay of the migrant abroad and the number of dependents at home appeared to have some influence on remittances.

Table 6: The remittance system: determinants and intermediate effects

POTENTIAL DETERMINANTS OF REMITTANCES	**Expected direction of relationship**	**Available pool of remittances**	**Decision to remit or not**	***How to remit***	**Amount to remit**	**Uses**
Number of workers	+	X				
Wage rates	+/-	X				
Economic activity in Host country	+	X				
Economic activity in sending country	+	X				
Exchange rate	+/-		X	X		
Relative Interest rate between labour-sending and receiving countries	+/-		X	X		
Political risk factors in sending country	-		X			
Facility of transferring funds	+	?	X	X		
Ratio of females in population in host country	-		X		X	
Years since out migration	+/-		X		X	X
Household income level	-		X		X	X
Employment of other household members	-		X		X	X
Marital status	+		X		X	?
Level of education	-		X	?	X	X
Occupational level of migrants	-		X		X	X

Another econometric analysis by Straubhaar (1986) of remittance data from Turkey over the period 1963-82 confirmed Swamy's (1981) earlier findings. Based on secondary time-series data, he showed that "neither variations in exchange rates (reflecting government intention to attract remittances by premium exchange rates) nor changes in the real return of investments (reflecting government intention to attract remittances by foreign exchange deposits with higher returns) turned out to affect the flow of remittances" (1986, p.737-8).

While these incentives *do not* appear to have a significant impact on *total* remittances they might have an effect on the magnitude of unrecorded remittances. Tan (1987) suggests that differences in the rates of devaluation and inflation over the 1986-87 period would explain much of the differences between remittance inflows into several Asian countries. In India, repatriable deposits grew at a fast rate in response to interest rate differentials created by the drop in international capital market rates (Nayyar, 1989). In conclusion, it would appear that there is no general consensus on the strength of determinants nor on their relative responsiveness to policy measures.

4. Use of remittances

4.1 The evidence: Micro and Macro Implications

The expenditure pattern of migrant households is central to any meaningful discussion on the development implications of labour migration and the design of policy measures to enhance the developmental impact of remittances. There are a number of studies which deal with this aspect of migrant-worker behaviour in our sample countries. Despite significant differences in the research design and the definitions of key concepts, there is a striking convergence on the nature of the expenditure pattern of households and the potential benefits and costs of remittances for the labour sending countries.

It is important to note here, that while much of the literature focuses on how remittances are used by recipients (generally spouses, children, parents and siblings), explored below are also the implications of remittances on the overall economy, without limiting it exclusively to migrant households.

4.1.2. Micro-Implications

For the most part, remittances are used for daily expenses such as food, clothing and health care — basic subsistence needs — and they make up a significant portion of the income of those households. Funds are also spent on building or improving housing, buying land or cattle, and buying durable consumer goods such as washing machines and televisions. Generally only a small percentage of remittances are used for savings and what is termed "productive investment" for e.g. income and employment-generating activities such as buying land or tools, starting a business and other activities with multiplier effects (Russell 1986; Keely and Tran 1989; Massay and Basem 1992; Taylor *et al* 1996; Russell 1997).

There is however an opposing view which sees remittances as a household strategy for improving recipients' standard of living, providing resources for food, housing improvements, education and small household appliances. These researchers feel that the criticism of consumption patterns ignores the personal circumstances as well as structural conditions in which migrants make their decisions as well as the inherently private nature of the transfers and the limited opportunities for small-scale investment in the community and the social and financial capital needed for a new business. Thus, given the circumstances in the various countries (poor infrastructure, lack of access to credit, etc) the migrants are making rational decisions about the use of their remittances.

4.1.3. Macro-Implications

While data limitations have made it difficult to undertake formal macro-modelling exercises for most of our sample countries, the results are still sufficient to give a broad quantitative analysis of the impact of remittances on the economy. A major advantage of this exercise is that it helps the economic planner - as a result of changes in the economy due to the downturn in the demand for labour - and the measures needed to counteract its adverse effects on the economy.

The literature describes two opposing perspectives on this issue, with studies supporting both. One school of thought states that at a macroeconomic level, remittances often provide a significant source of foreign currency, increase national income, finance imports and contribute to the balance of payments. Remittances also have economic, social and political life and contributed to the expansion of wire transfer and courier companies as well as money exchanges (Russell 1986; Keely and Tran 1989; Massey 1992; Taylor et al. 1996a and 1996b).

Others, however, believe that remittances not only fail to help the economy but also decrease the likelihood of an improved economy. The inflow of funds can be deceptive if it creates dependence among the recipients, encourages the continued migration of the working age population and decreases the likelihood of investment by the government or foreign investors because of an unreliable workforce (Pastor and Rogers 1985; Pastor 1989/90; Itzigsohn 1995). Moreover, these researchers view remittances as unpredictable and as a cause of increasing inequality. Also remittances are frequently spent on imported consumer goods, rather than locally produced ones, decreasing the potential multiplier effect of the money and increasing import demand and inflation (Russell, 1986; Martin, 1990). In Korea and Pakistan, for example, it has been observed that inflation together with specific skill shortages resulting from migration has lead to rising wage rates and dramatic changes in the relative price of labour. The availability of foreign exchange, together with growing demand for consumer goods not available in the domestic market, has been linked with a rising demand for imported goods[8]. Table 7 below summarizes the major contributions to the debate.

While there are studies that have examined the uses of formal remittances, there has been no serious attempt to evaluate the use of unrecorded remittances. Do informally remitted funds, i.e. transactions with money couriers, eventually produce the same effects (positive or negative) on the economy? Alburo and Abella (1992), using information from a questionnaire-based survey of a sample of 600 return migrant workers in the Philippines, examine how workers' informal remittances to the Philippines impact on the economy. On the one hand, they find that informal remittances in the form of foreign exchange are pumped into finance trade and lead to the same impact as formal inflows. On the other hand, if the remittance is made in the domestic currency, the net effect of the remittance is on the

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[8] A number of observers have pointed out that the influx of remittances and the preoccupation with their effects on the balance of payments has deflected governments from attending to the underlying facts of unemployment, inequality and underdevelopment which have led to migration in the first place.

domestic economy and not on trade. Being more of a transfer than an incremental resource, it may induce multiplier effects depending on the kind of expenditure relative to what it would have been used for without the transfer.

Table 7: Benefits and costs of remittances from international worker migration

Benefits	*Costs*
Ease foreign exchange constraints and improve balance of payments	Are unpredictable
Permit imports of capital goods and raw materials for industrial development	Are spent on consumer goods which increases demand, increases inflation and pushes up wage levels.
Are potential source of savings and investment for capital formation and development	Result in little or no investment in capital generating activities
Net addition to resources	High import content of consumer demand increases dependency on imports and exacerbates BOP problems
Raise the immediate standard of living of recipients	Replace other sources of income, thereby increasing dependency, eroding good work habits and heightening potential negative effects of return migration
Improve income distribution (if poorer/less skilled migrate)	Are spent on ‘unproductive’ or ‘personal’ investment (e.g. real state, housing)
	Create envy and resentment and induce consumption spending among non-migrants

Source: Russell (1986).

The conclusion they draw from their study is that the amount of foreign currency coming in via merchandise exports is lower than otherwise — there is evidence that systematic undervaluation of exports has been going on for some time presumably as a means of capital flight. Similarly, there is evidence of import undervaluation to evade high tariff rates on trade regulations. While displaying lower imports than otherwise, this deprives the country of duties and possibly further distorts protection. This import undervaluation is then also associated with open or technical smuggling. To the extent that these remittances then contribute to trade transactions, these trade behaviours suggest an even bigger impact. The lower inflow of exports, through under valuation exacts a greater burden on remittances.

4.2 Analysing the evidence

Evidence from Asia does not consistently support the view that the additional household income from remittances is used *exclusively* for consumption purposes or that remittance-receiving families consume more and save less than others. Ranasinghe (1989) estimated the consumption functions of both remittance-receiving and non-remittance receiving households in Sri Lanka from survey data and found that there was no significant difference in the overall consumption pattern between the two groups. In some instances micro-level research yielded evidence to the contrary, namely that remittance-receiving households saved more. Reporting on the findings of the ILO-ARTEP study of remittances, Amjad (1989b) notes that total savings out of remittances were estimated at 41.5 per cent for Pakistan (1980-85);15.1 per cent for the Philippines (1982); 44.5 per cent for Sri Lanka (1986); and 58.0 per cent for Thailand (1982). A number of studies from the Philippines show that “migrants” families exhibit even a higher propensity to save than non-migrants (Abella 1992). A major reason for this difference seems to be that, unlike the European guest workers who stay in host countries for a prolonged period, the Asian workers are predominantly “target savers who go abroad on limited period contracts”. Given this feature, it is quite possible that migrant families consider remittances only as a transitory income and tend to save as much as possible.

As for the allocation of investment expenditure by migrant households, the Asian experience parallels the patterns observed in labour-exporting countries in other parts of the developing world. There is a heavy concentration of investment in real estate. Business investments are undertaken mostly in trade, transport and other services, and investment in manufacturing and agriculture is a relatively rare (Athukorala, 1993). This observed pattern of investment behaviour could be explained, perhaps, by the peculiarities of the socio-economic context of migrant workers and their social expectations. In the typical socio-economic setting of migrant-sending countries, starting a small business or buying land (or even extravagant consumption) enable the return migrant to compete, at least symbolically, with the established capital owners of his community of origin (Gitmez, 1988). These considerations, in fact, suggest that the observed remittance utilisation pattern, while undesirable from the perspective of the general developmental objectives of the given country, is essentially consistent with the individual migrant worker’s motivation for migration. If this is the case, then migrant-specific investment policies of labour-exporting countries are bound to have only limited influence on the expenditure decisions of migrant households. However, given the nature of migrant workers’ income path, and the limited set of investment choices open to them, there may be some scope for more frugality and better allocation of the investible surplus, that justifies government policies to influence their saving/investment levels. There is, indeed, evidence that most return migrants who venture into business are ill-equipped to take up their new entrepreneurship role and this leads to widespread business failure (Amjad, 1989).

5. Policy measures to influence the flow and use of remittances

Over the years, governments have introduced a number of policy measures to affect migrants' decisions to maximize the flow of remittances back to the labour-sending country and to direct them to socially optimal ends. Because remittances are essentially private transfers, these policy measures have been largely in the form of incentives, but in some instances they have also been imposed as mandatory requirements.

It is generally accepted that policies can encourage remittances - recorded or unrecorded - for longer-term growth and income security in labour-sending economies:

- by encouraging migrants to hold savings in financial assets in the labour-exporting country rather than abroad (or spending their savings on consumer goods)
- by redirecting remittances to official channels and
- by facilitating the investment by migrants in self-employment and enterprise creation in labour-exporting countries.

Governments of labour exporting countries have introduced a variety of schemes for migrants with the above policy objectives in mind: repatriable foreign exchange accounts to encourage the greater use of official channels, foreign currency denominated bonds to encourage the acquisition of financial assets in the labour sending country and self employment investment schemes to stimulate more direct investment in productive assets[9].

5.1 Policy measures to influence the choice of the remittance channel

5.1.1 Mandatory remittance requirements

Among our sample countries, only Korea has used mandatory requirements as an effective tool for attracting remittances to the domestic banking system. As a condition for issuing exit permits, the Korean government stipulated that at least 80 per cent of the earnings of migrant workers be remitted through the Korean banking system. Available estimates indicate that the average formal remittance ratio of Korean workers (about 90 per cent) usually exceeds the minimum legal limit (Hyun, 1989). In the Philippines minimum remittance requirements (50 per cent to 80 per cent, depending on the profession) were introduced in 1982 by Executive order no. 857, but the law soon became inactive because of implementation difficulties. Attempts in Pakistan, Thailand, Bangladesh to introduce

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9 Athukorala's (1993) survey for ILO-ARTEP provides a useful overview of the first two types of policy. He reviewed policies in the seven major labour exporting countries of Asia - while they bear repeating here, it is more important to look at the courses of action in the context of informal remittances that this study has focused upon.

mandatory remittance limits have experienced similar fates (for a review see, Abella, 1992).

The effectiveness of the Korean policy is closely related to the unique features of the Korean labour exporting process, perhaps best described as "package" approach. Almost all Korean migrant workers are employed directly by Korean companies involved in construction projects in the Middle -East. The government plays an active role in the process by directly assisting companies to win contracts, as part of its strategy of export promotion. The Korean corporations deposit their employees salaries in foreign currency accounts in Korean banks. The "package" approach ensures a higher remittance rate and promotes savings by workers in general; the workers are housed in work camps where their daily requirements are provided for by the company, and they are recruited for shorter terms (rarely exceeding a year) so that family ties remain intact and there are positive incentives to maximize remittances (Kim 1986). In contrast to Korea, a large number of workers from the Philippines, Thailand and Bangladesh find employment overseas through "unofficial" channels. There is no package approach conforming incentives and constraints. The level of remittances is in these countries correspondingly lower, particularly in conjunction with exchange rate overvaluation, high bank charges, delays involved in clearing foreign-currency denominated cheques, negative interest rate on domestic savings and economic uncertainty associated with domestic political instability.

This suggests that a legal remittance requirement policy can be effective only in the rare situation where the authorities have direct control over the entire process of labour migration.

5.1.2 Incentive Schemes

Given the essentially private nature of the remittance decision, labour-exporting countries attempt to attract remittances rather through incentives rather than through mandatory means, primarily:

C repatriable foreign currency accounts and
C foreign-currency denominated bonds.

a) Repatriable foreign currency accounts

Many countries give migrant workers (both temporary and permanent) the opportunity to remit their earnings into foreign-currency accounts (RFCAs) in domestic banks. These accounts are not subject to foreign exchange regulations. This is all the more attractive in a context of an economy which restricts foreign capital movements.

India and Pakistan pursue an active interest rate policy relating to these accounts in order to ensure an attractive premium over world financial market rates for account holders. Since 1980, rates on foreign currency accounts in Pakistan have been adjusted in line with the movements in the Eurodollar deposit rate in London. In 1991, the margin over the Eurodollar deposit rate ranged from 0.75 per cent for three month deposits to 1.63 per cent for three year deposits. Likewise, since 1982, the Indian government consistently maintained interest rates on these accounts at a substantially higher level than that on comparable domestic or Euro-currency deposits (Nayyar 1989, Table 4.11). In contrast, in Sri Lanka, interest rates on these accounts have, in fact, remained below world market rates in most years (Aydinoglu, 1988). In Korea, the Philippines and Thailand, interest rates have mostly been at par with exchange-rate adjusted domestic-currency deposit rates.

In Bangladesh, the foreign currency account scheme (Wage Earners' Scheme (WES) initiated in 1974) offers a premium exchange rate to the conversion of foreign - currency balances into local currency (Taka). Migrant workers are also permitted to sell the balances in foreign currency accounts directly to importers, through daily "auctions" conducted by the major national banks. Importers are allowed to use foreign exchange thus purchased to import a list of commodities authorized by the import control authorities. During 1974-82, the exchange rate premium applicable to WES dealings was about 30 per cent. It is generally assumed that this was instrumental in diverting remittances to official banking channels. Since 1983, the premium has, however, tended to decline (Mahmud, 1989), as the government gradually embarked on a policy reform involving the removal of quantitative import restrictions and rectifying exchange rate misalignment.

A major limitation of foreign currency accounts as a tool for stimulating remittances is that they, by their very nature, are attractive only to migrants belonging to professional and higher-skilled categories who earn relatively higher incomes. According to a survey conducted in Sri Lanka in 1984, only 8 per cent of return migrants had used this facility, of whom 90 per cent were skilled workers, and no housemaids (who account for about 70 per cent of migrant-workers from Sri Lanka). In his analysis of the behaviour of net repatriable deposits in India, Nayyar (1989) also comes to the conclusion that these deposits originate predominantly from relatively high-skill and high-income migrants who are in a position to assess investment opportunities and redeploy their investible resources. During 1977-85, the average share of inflow of remittances into repatriable accounts in the total formal remittance of India was only 15 per cent. The figures for Pakistan and Sri Lanka for the same period were 1.5 per cent and 5 per cent respectively (Athukorala, 1992)

b) Foreign currency bonds

Some labour-exporting countries like Pakistan, Bangladesh and India use foreign currency denominated bonds as a tool for stimulating remittances. Foreign currency bonds are similar to repatriable foreign currency accounts in that the money invested is repatriable without being subject to the foreign exchange regulations. Compared to repatriable foreign currency accounts, they are considered to be more effective in diverting unrecorded remittances into the formal banking system, because of the anonymity provided.

In 1985, Pakistan introduced a scheme of Foreign Exchange Bearer Certificate (FEBCs) to supplement her foreign currency accounts scheme. The FEBCs are issued by the State Bank of Pakistan on payments of foreign currency and they carry an interest rate of about 2 percentage points above the Eurodollar deposit rate. They are encashable in foreign or domestic currency at a premium of 8 to 15 per cent on the official exchange rate. Given the high interest rate, the premium exchange involved and the anonymity of investment, these certificates appear to be an effective contender to the Hundi system. Total investment in FEBCs during the period from 1985/86 to 1987/788 amounted to US $300 million or about 6 per cent of total remittances for this period (Amjad, 1989).

In 1986, the Central Bank of Bangladesh introduced Wage Earner Development Bonds (WEDBs), a type of foreign-currency denominated government bonds specifically designed for migrant workers. The interest rate on these bonds is significantly higher than the rates paid on domestic bank deposits of comparable duration. In Bangladesh, there is also a single premium insurance scheme under which workers can obtain a life insurance cover by paying a lump-sum premium in foreign currency (ILO/UNDP 1986).

Generally, one finds that none of the incentive schemes address all factors that lead to the leakage of remittances into informal channels. Exchange rate overvaluation acting as an implicit tax; low relative rates of return on domestic financial assets induce the retention of money balances in foreign bank accounts; the lack of adequate and efficient banking facilities, and restrictive foreign exchange practices explain unrecorded remittances. Whether “migrant-specific” incentive schemes can significantly divert remittances when the fundamentals remain distorted and when institutional deficiencies remain unrectified, is doubtful (Swami, 1981 and 1988; Straubharr 1986). On the basis of three indicators of institutional deficiencies, i.e. the financial intermediation ratio (M2/GDP), the black market premium, a measure of the degree of exchange rate overvaluation, and the severity of exchange and trade restrictions in the economy and the real interest rate showing the degree of relative incentive for financial saving vis-à-vis consumption (table 8), Athukorala finds that these three indicators largely explain why Korea, Sri Lanka, Bangladesh and Thailand have below average remittance leakage ratios.

The favourable domestic environment in Korea may explain why the remittance ratio has well exceeded the legal limit. For Sri Lanka, the low incidence of remittance leakage is in accord with the low degree of exchange rate overvaluation, the high degree of financial development in the economy, and positive real interest rates. Thailand shows a below-average remittance leakage ratio even though she does not have any specific policy aimed at influencing remittances. It is also worth noting that the degree of exchange rate overvaluation was one of the lowest in Thailand at that time. The country also shows the highest degree of financial intermediation and a high real positive interest rate.

Bangladesh is a case apart; its general macroeconomic environment (as reflected in the overvalued exchange rate, low degree of financial development and the negative real interest rate) would in principle not suggest to be conducive to formal remittances. Here the low degree of remittance leakage could be due to the operation of the WES (Mahmud, 1989), to which workers of all walks of life have access to foreign currency account schemes in other countries. Given Bangladesh’s fairly restrictive import regime, the import entitlement element of the WES scheme generates a handsome scarcity premium for workers.

Table 8: Informal Remittance Ratio and Related Macroeconomic Indicators

Country	Informal Remittance Ratio	Inflation[1]	Real Deposit Rate	Financial Intermediation Ratio (M2/GDP)	Black Market Premium[2] (1980-85)
Bangladesh	20	11.1	-2.6	25.2	70.5
India	40	7.7	1.6	45.4	13.5
Korea	8	5	9.2	44.1	0.5
Pakistan	43	7.3	1.4	39.6	20.5
Philippines	60	16.7	-6.5	20.7	11.5
Sri Lanka	13	12.4	0.8	46.7	3.5
Thailand	18	2.8	8.2	64.9	0.1

Source: Athukorala (1993)

Notes: 1/ Average annual growth rate

2/ $1 - \frac{BlackMarketExchangeRate}{OfficialExchangeRate} \times 100$

In contrast, despite a mandatory remittance requirement, the Philippines have the highest rate of remittance leakage of the seven countries reviewed. Given the high degree of exchange rate overvaluation, the low degree of financial development, negative real interest rates, and the dismal general growth record, this hardly comes as a surprise. Finally, the relatively high remittance leakages in India and Pakistan are also generally consistent with the Athukorala's three indicators of institutional deficiencies. In Pakistan, the existence of the well organized Hundi system which directly competing with the formal banking system has certainly been an additional factor reinforcing the leakage tendency (Kazi, 1989).

5.2 Policy measures to influence the use of remittances

If governments in Asian labour-exporting countries have generally displayed a keen interest to develop policies to attract remittances, they have given much less attention to policies aimed at influencing the pattern of utilisation of remittances. This is somewhat astonishing since channelling remittances into productive investment is generally considered an essential ingredient of growth promotion in labour exporting countries. Where they have been adopted, such policy initiatives have taken basically three major forms:

- facilities to allow migrants to import machinery and equipment at concessional rates of duty
- business counselling and training
- entrepreneurship programs.

5.2.1 Facilities for importing investment goods

Pakistan has a “Non-Repatriable Investment Scheme” under which overseas Pakistanis (including those returning permanently) are allowed to import machinery and equipment at concessionary rates of duty to establish manufacturing enterprises. The rate of duty rebate varies i.e., projects in relatively underdeveloped areas receive a higher rate of rebate. As a part of the scheme, the Investment Advisory Service of Pakistan undertakes pre-feasibility studies to facilitate the choice of investment projects. Pakistani migrant workers are also allowed to invest in export processing zones which enjoy complete duty exemptions on machinery and raw material imports.

In India, migrant workers who return home for permanent settlement and wish to set up a new industrial unit or participate in the expansion of existing business units are given preferential access to capital goods and raw material imports. The impact of these schemes has not yet been assessed. However according to the available fragmentary evidence, so far their overall impact has been rather insignificant (Nayyar, 1989; Kazi, 1989).

5.2.2 Business counselling and training

The Government of Korea launched an experimental training program for return migrants in early 1986. The program aims at retraining return migrants in new skills so that they can move to other industries or establish their own business. By mid-1986, some 4,000 workers were participating in the scheme (Hyun,1989). In Thailand, the Bangkok Bank offers an advisory service on investment opportunities to its migrant-worker customers. The workers who seek advice are also eligible to obtain supplementary loans from the bank if they have a good record of savings. As of 1987, only a few return migrants had approached the bank to obtain these services. The overseas Pakistanis Foundation (OPF), a non-profit organisation created for the welfare and advancement of overseas Pakistanis, offers investment advisory services to return migrants and assists them in obtaining services from relevant government departments in setting up business. The Welfare Division of the OPF has published a ‘Guide to Investment’ for return migrants giving information on the available credit facilities, savings schemes and business advisory services. In the Philippines, the POEA (Philippines Overseas Employment Administration) prepared in collaboration with the ILO, a proposal to establish training centres in various high-migration regions. These centres would provide business consultancy, information services, training in small-scale business management and financial supports to return migrants and their family members (ILO/UNDP,1988). In Sri Lanka, the Department of Labour initiated a counselling service for return migrants in 1981. A “Return Migration Branch” was established in the Research and Development Division of the Ministry of Labour, to identify the problems of returning migrants and provide counselling and advice. For different reasons however, the program never became fully operational.

5.2.3 Entrepreneurship development

Sri Lanka was the first labour-exporting country in Asia to launch an entrepreneurship development programme for return migrants (Rodrigo and Jayatissa,1989). This programme, inaugurated in 1982 by the Sri Lankan Ministry of Labour in collaboration with the Merchant Bank of Sri Lanka (referred to henceforth as 'ML-MB Program'). Aimed at guiding returning migrants in business creation.

This initiative showed that return migrants belonging to higher occupational categories are suitable for an orientation program of this type leaving out unskilled return migrants. Second, the possibilities for guiding candidates into business are limited unless accompanied by measures to facilitate the access to capital. Third, the ability to identify and develop a project, as well as managerial skills needed to run a business, cannot be imparted only through a program of class instruction.

The outcome of the Sri Lankan ML/MB scheme is not different from that of similar attempts elsewhere. In particular, in Turkey and Yugoslavia, various schemes to encourage investment by migrants, through workers' companies and "village development cooperatives" have had mixed results for similar reasons (Ebiri, 1985; Penninx 1982).

In the Philippines, by 1987 the Welfare Fund had funded 23 single-owner ventures. Like Sri Lanka, the majority of workers involved in these projects belonged to relatively high-income occupational groups. A systematic study of the sustainability of these businesses has not yet been undertaken.

In the South Pacific there has been no concerted effort by government to offer incentives to remit more through official channels and to induce more investment of remittances in productive activities.

5.3 The potential role of micro-finance in linking unrecorded remittances to development

On the whole, then, the attempts of Governments of labour-exporting countries to attract unofficial remittances and influence their uses domestically have had a mixed record. There are a few schemes for self-employment and vocational retraining, but these contribute only marginally to the re-absorption of labour. Clearly, it is difficult to convert successful migrant workers/savers with no prior business experience into dynamic entrepreneurs. It could be argued that it is more realistic to introduce financial intermediaries that capture migrant remittances as deposits and channel them to existing small and micro-businesses, rather than transforming migrants directly into entrepreneurs.

In other words, rather than focussing on 'migrant-specific' investment programmes, labour exporting countries might wish to induce micro-finance institutions to capture remittances. The basic idea would be to design policies to transfer funds of the migrant workers through to entrepreneurs. Savings and credit schemes and investment instruments specifically designed to suit migrant workers' risk profiles could be important vehicles.

This could involve elements of a payroll deduction scheme and a fund mechanism offering competitive remuneration and little restriction on withdrawals. Partnerships with commercial wire transfer and courier service companies could help share risks and costs.

Migrant worker savings could also be managed similar to pension funds. These options need to be explored in greater detail by policy-makers. It is plausible that these types of savings-credit schemes are attractive to migrant workers who often consider overseas employment as a means of saving money for the undertaking some investment upon return.

6. Policy recommendations and suggestions for further research

The subject of remittances is, in the final analysis, virtually inseparable from the broader issues of international migration such as the number and characteristics of migrants and the rates at which they return home. Despite these close links, the topic warrants focused attention, as remittances have grown to become a central factor in the domestic economies of labour-exporting countries. This review stressed the importance of recognizing the reality of unrecorded remittances. It has examined various policy initiatives that have been taken earlier in several Asian labour exporting countries to steer remittances towards the formal banking sector, as well as to bring migrant household decisions on the use of remittances in line with national developmental priorities. The material analysed here gives rise to a number of suggestions for policy formulation and further research.

Remittance mobilization

What policy options are available to governments to increase remittance inflows, formal or informal ? While there is no definitive empirical evidence, our examination of the comparative experience of several sample countries suggests that remittance leakages from formal to informal channels are, to a significant extent, a reflection of the deficiencies in macroeconomic policy regimes of migrant sending countries. Thus the "first-best" solution to the problem seems to lie in implementing a wide range of policy reforms aimed at "setting the macro-economic house in order". By setting the exchange rate on a realistic and sustainable course, ensuring a positive real interest rate and liberalising foreign trade, the conditions for curb-market foreign exchange dealings can be effectively destroyed.

In recent years, some labour exporting countries have embarked on market oriented trade and exchange reforms, and policy reforms in some countries (i.e Sri Lanka, South Korea, Thailand, Indonesia) have been far-reaching. Elsewhere the policy regimes of labour exporting countries remain short of providing incentive effects. Whatever the policy context, micro-finance schemes would seem to lend themselves to play a strategic role for intermediation between migrants and microentrepreneurs. The incentive element attractive enough compared to the return on keeping balance with foreign banks. This will obviously put a strain on the portfolio policy of a fund that is geared to finance microenterprises.

In addition, the effectiveness of incentive schemes in promoting remittances depends crucially on the ability of the existing banking network to compete with the informal market. There is evidence that the popularity of non-institutional channels of remittances among migrant workers cannot be ascribed solely to the better exchange rates offered. According to a study of the operation of the money courier network in the Philippines (Abella, 1989), the rates offered by the money courier are usually at par with or even lower than the rates offered by commercial banks. Migrant workers turn to them primarily because of their efficient and speedy service. More importantly, they usually cover areas where there are no formal banking facilities. Furthermore, unlike in banks, payment instructions are usually sent by fax and money is personally delivered to designated persons within a few days. Some money couriers have been highly innovative in designing remittance methods to suit overseas workers' earnings patterns and the financial requirements of their families in the country of origin. There are instances when the courier undertakes payment in local currency to the migrant family in advance on the agreement that the foreign currency payment is made by the worker on the following pay day. Thus, any effective strategy for attracting remittances into the formal banking system should include attempts to expand the branch network further, in order to effectively link overseas workers with the remittance receiving families and to take on more of the desirable features of the services offered by the informal network.

Productive use of remittances

As discussed in Section 5, the overall expenditure patterns as well as investment decisions of return migrants and their households are basically determined by their socio-economic background and the choices available, as determined largely by the market and policy.

In recent years, international agencies operating in the Asian region and some other labour exporting countries have launched entrepreneurship development programmes aimed at converting migrant savers into entrepreneurs. A major constraint is the limited outreach of such schemes, accounting for only a fraction of total remittance inflow to the given country. Return migrants belonging to low income categories are invariably left out because of their limited savings, inadequate formal education and obvious preference for investment in family business which does not require acquaintance with modern business practices. Other migrant workers may be genuine entrepreneurs and looking for opportunities to become self-employed. Some of the major constraints they face are unfamiliarity with procedures relating to various dealings with relevant government bodies, unavailability of supplementary finance and lack of knowledge required to select an appropriate area of investment.

In conclusion, remittances are fundamentally private transfers, they are used rationally by migrants. Even under sub-optimal macroeconomic conditions, remittances can be enhanced by a reduction in transmittal costs, information on investment opportunities, attractive exchange rates, remittance banks and partnerships with money courier companies.

Open questions and next steps

The globalization of financial markets and the current social and economic turmoil caused by the Asian financial crisis, necessitate a reappraisal of the role of remittances.

There are various questions that remain open and call for further investigation like:

- Is there a role for micro finance institutions in linking informal remittances to development?
- Is it feasible to pool migrants' savings and form mutuals or pension funds?
- How does one best bring about improvements in the existing banking network in its ability to compete effectively with informal arrangements?
- Has there been a systematic assessment in the Asian context of the hypothesis that incentive schemes tend to meet with limited success when other relevant macroeconomic factors are unfavourable?
- How does the Asian financial crisis affect the issue of remittances? What impact will the crises have on informal remittances and how can Governments improve on incentive schemes to channel remittances to productive investments?

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