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Migrant Remittances
and Development
in the Global Economy

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Contents

<i>List of Tables and Figures</i>	vii
<i>Preface</i>	ix
1 The Political Economy of Remittances	1
2 Sending Money Home	11
3 When the South Meets the South	43
4 Regulation and the Market for Global Remittances	57
5 Remittances for Asset Building	101
6 Financial Access and the Role of Microfinance Institutions	125
7 The 5 Ts of Transnationalism	175
8 Deterritorializing Development Policy: Toward a Conclusion	203
<i>List of Acronyms</i>	213
<i>A Note on Research and Data Sources</i>	217
<i>Bibliography</i>	219
<i>Index</i>	229
<i>About the Book</i>	249

1

The Political Economy of Remittances

In this book I analyze the ways that migrant remittances operate worldwide and the implications of these inflows for developing countries. Interest in migration and development in policymaking and academic circles is growing, with institutions increasingly recognizing the impact of migrants and migration flows on development. I focus on the main trends and characteristics of remittance senders and recipients, the context in which migrants send money, and the relationship of these transfers to development—in particular to asset building, transnationalism, and migrant philanthropy.

International migration, particularly foreign labor mobility, is a two-pronged dynamic. It responds to specific determinants of international migration patterns (push-pull dynamics, industry demands for foreign labor, underdevelopment, and opportunity costs), as well as to migrants' personal obligations to their families. This latter factor is the subject of this book, and the text explores the trends and patterns involved in sending and receiving money.

International labor mobility continues to increase in scope and intensity. Castells and Miller refer to it as “part of a transnational revaluation that is reshaping societies and politics around the world” (2003: 77). Official estimates put the number of migrants at around 190 million and growing. The increases come from traditional migrant sending countries as well as other, less traditional places. In fact, 62 percent of the world's migrants are in the five destination

regions noted in Table 1.1, with the rest scattered across many developing countries. This trend points to one of the key features of globalization: global market integration is primarily regional, and labor market integration follows that pattern.

With the growing integration of foreign labor into global markets, migrants have become substantively and more directly involved in economic and social activities in their countries of origin. One reason is the dynamics of globalization and the new opportunities that appear as the political and economic environment open up in their home societies. Such involvement can be viewed as it relates to at least four spending or investment practices of migrants: various forms of capital transfers (such as remittances); demand for services

Table 1.1 Distribution of the World's Migrants by Region of Origin and Destination (in percentage)

Region of Origin	Destination					Percentage of Migrants Worldwide by Region of Origin
	Southeast Asia	North America	Western Europe/ European Union	Arab Oil-Exporting Countries	Russia and Kazakhstan	
East Asia and Pacific	59	18	7	9	1	12
Europe and Central Asia	27	19	53	7	97	36
Latin America and Caribbean	4	48	10	2	1	16
Middle East and North Africa	3	3	14	27	0	8
North America	2	3	2	1	0	2
South Asia	4	5	5	48	0	14
Sub-Saharan Africa	2	4	9	6	0	12
Percentage of migrants worldwide by region of destination	5	24	20	5	8	100

Source: Migrants—Development Research Centre on Migration, Globalization and Poverty, “Global Migrant Origin Database,” version 4, March 2007, <http://www.migrationdrc.org/>.

Note: The last column refers to the percentage of migrants originating from those world regions. The last row refers to the percentage of migrants moving to those world regions.

such as telecommunication, consumer goods, or travel; capital investment; and charitable donations to philanthropic organizations raising funds for the migrant's home community.

I refer to these practices as the *5 Ts of transnationalism* (Orozco 2005d). The 5 Ts are

1. Transfers of money and capital—remittances, community donations, investments
2. Transportation—migrants traveling home
3. Tourism—migrants spending at home as tourists
4. Telecommunication—migrants spending money for phone calls back home
5. Trade—migrants consuming nostalgic commodities, such as local beer, tortillas, pupusas, and so on

Immigrant home country economic engagement is driven by the material and symbolic circumstances of being a migrant. These circumstances include meeting family obligations, like remitting; validating one's identity of belonging to the homeland using symbolic and material resources (such as buying nostalgic goods or belonging to a hometown association); or building and strengthening an emotional shelter in the transnational family through regular calls, or visits to the homeland.

Family Remittances as Part of the 5 Ts

Remittances represent the most widespread and important migrant economic activity. Family remittances are earnings that migrants transfer to families in the home country to cover the regular upkeep of their households. These money transfers can be viewed according to the characteristics, trends, and features of those who send and receive remittances; the marketplace and rules shaping the sending of money; and the dynamics in the home country that result from the transfers and related transnationalism. The interactions that occur between these three aspects of the remittance environment have direct effects on international development. In this book, I devote chapters to each of these aspects, which are briefly introduced below.

Remittances are a key component of the migrant lifestyle and reality. However, the percentage of migrants who remit varies by

region. In most Western industrialized nations, less than 70 percent of migrants remit, compared to as high as 90 percent of migrants working in Southeast Asia, Russia, or the Gulf countries. In Chapter 2, I show that migrant income and family needs dictate how much migrants send home, and these amounts vary greatly. In Canada, the United States, Western Europe, and Japan, migrants remit an average of US\$5,000 a year to their relatives. Migrants in Russia and the Gulf countries remit half that amount (US\$2,500 per year), and migrants moving to regions such as West Africa, South America, and Central Asia remit less than US\$1,000, which goes mainly to rural areas in the home countries. The average length of time that migrants remit varies as well, ranging from one to seven years, depending on the nation from which they are sending.

Most migrants have low incomes and are financially disenfranchised, with little access to the banking system (bank account ownership varies from 10 to 50 percent, with African migrants in Africa least likely to have a bank account). This condition curtails their ability to improve their material circumstances, as I show in Chapter 2. I also discuss intraregional remittances and highlight remittance flows between developing nations (Chapter 3). These flows have similarities as well as differences from interregional flows and those from developed to developing countries. It is important to examine both types of flows so that governments of countries that either send or host migrants can create informed policies to leverage the development impact of migrants' transnational activities.

Regulation and the Marketplace

Remittance trends do not emerge from a vacuum but are shaped by rules and an existing marketplace. Money transfer rules and demand and supply in the remittance marketplace significantly shape the transfer process. I explain in Chapter 4 the processes for regulating international money transfers, as well as review worldwide legislation. I specifically look into domestic rules on authorized entities, and regulations on competition and consumer protection in select countries in Asia, Europe, the Americas, and Africa. I then analyze in depth how money transfers operate within the context of a larger cross-border payment industry. I describe global payments players as well as industry trends in Asia (Southeast Asia, Central Asia, and the

Caucasus), Europe (Moldova and Spain), Latin America, and Africa (Nigeria, Rwanda, Uganda, and West Africa).

Remittances and Development

Money transfers affect the development and well-being of those receiving remittances. Development relates to the context and factors that transform the human condition among the poor. Definitions of *development* often encompass a better standard of living that includes education, asset building, and health. According to the United Nations Development Programme (UNDP), development is “about creating an environment in which people can develop their full potential and lead productive, creative lives in accord with their needs and interests” (UNDP 2001: 9). I have previously defined development as a condition that enables individuals and society to enjoy a healthy quality of life, be free, have opportunities for upward mobility, and improve their material circumstances (Orozco 2007f).

Historically, the link between migration and development, and the relationship between remittances and development, has not been sufficiently explored, either theoretically or empirically. Lately, however, the literature has begun to explore the links between these factors (see, for example, Phillips 2009), and they are becoming a topic of significant discussion and interpretation. To some, the intersection between migration and development is causal, whereby migration is a by-product of development; that is, people migrate because they can. To others, causality is the inverse: people migrate because they must. Still others argue that the intersection is functional, whereby the effects are mutual and interactive.

Empirical work shows that the relationship of migration and development is an organic one, in which the determinants of labor mobility and migrant economic engagement intersect with the factors that lead to development. Hein de Haas argues that “migration is not an independent variable explaining change, but is an endogenous variable, an integral part of change itself in the same degree as it may enable further change” (2008: 43). Migration and development are constitutive of each other; they evolve and influence each other in every process associated with human mobility and social change.¹ I have studied five aspects of the remittance-development relationship: (1) whether and how remittances reduce poverty, (2) gender perspec-

tives on remittances, (3) remittances and asset building, (4) remittances and transnational dynamics, and (5) remittances and macro-economic trends (growth and foreign exchange in particular). These studies show how migrants' economic activities transform the material base of their relatives, their societies, and the migrants themselves (Orozco 2005d). Remittance flows affect countries' economic and financial systems in many ways. Some studies have shown that remittances tend to reduce poverty. Adams and Page's (2005) analysis showed that a 10 percent increase in international remittances leads to a 3.5 percent decline in the share of people living in poverty. Adams (2004) examined remittances and poverty in Guatemala. Based on household survey data, he found that remittances reduced poverty by 1.6 percent and the depth of poverty by 12.6 percent. Moreover, Orbe's (2006) study of the effect of remittances on distribution of wealth in Ecuador found that the Gini coefficient dropped from 0.54 to 0.52 as a result of incorporating remittances into the income equation, indicating that remittances reduce income inequality. In general, remittances make recipients wealthier across all income groups (Orbe 2006).

These positive effects of remittances cannot be taken lightly; the impact of these flows depends on the productive base of the local economy and its ability to absorb these flows. In some countries, the inflow of remittances can artificially appreciate the value of real state property and foment inflation. A study by the World Bank found mixed results on the impact of remittances. In some cases, remittances tend to increase financial access, and in other cases, remittances tend to have an effect on the real exchange rate of a country (Fajnzylber and López 2007).

When looking to leverage remittances for development, policy-makers must consider that remittances both inform and are informed by gender. The concept of gender is associated with the socially defined ways in which males and females relate: the interplay between power, authority, and sex. This phenomenon is true for labor migration and remittances as well. Until the 1970s, most migration was perceived to comprise mostly male players. However, with globalization leading to increases in light manufacturing and the demand for labor-intensive activities, the feminization of labor has also increased. This shift has provoked greater female migration, particularly responding to job opportunities as domestic workers, entertainers, farm workers, and hospitality service providers (Ehrenreich and

Hochschild 2002). These opportunities allow women to send money home to provide for their families. Women senders make up between 30 and 80 percent of all remitters, and the distribution of migrants by gender differs from region to region. In Africa and Central Asia the majority of remitters are men, in Southeast Asia they are women, and in the industrialized world it is split. However, two-thirds of recipients are women, with flows representing at least 70 percent of all recipient household earnings (Orozco and Fedewa 2005).

While few studies explicitly focus on gender differences in remitting, some studies include gender in their analysis. The basic questions explored in these studies are whether men and women act differently in terms of their motives, whether they remit in different amounts, or both. Research often finds that women are less likely to remit or tend to remit less than men when they do remit. However, this finding is not uniform. Instead, some of the available research finds that women remit more overall and as a percentage of income than do men, and that women tend to have stronger networks with their families, which are often associated with greater remitting behaviors.

Another important question about remittances and development that international financial institutions often consider focuses on whether remittances enable receivers to build assets. In analyzing this particular approach, I find that remittances allow receiving household members to stay out of poverty and contribute significantly to building their assets. In Chapter 5, I study the connections between remittances and asset building among remittance recipients. In most countries, recipient families exhibit a positive relationship between receiving remittances and financial activities: *transfers increase disposable income and in turn increase savings within the household*. Moreover, the greater the transfers received, the higher the number of families with savings and bank accounts, and engaging in other financial activities (Orozco 2005c; Orozco 2007b). Moreover, when the supply of financial services meets demand, the local economy can better absorb these flows.

The trend of remittances and finance also connects to microfinance institutions (MFIs). As I discuss in Chapter 5, the participation of microfinance institutions in money transfers can boost financial access. Microfinance institutions can provide the missing link to development, given their strong presence in rural areas, where many remittance recipients live. Several MFI case studies from Latin

America, Europe, and Africa appear in Chapter 5; I draw some conclusions about how MFIs could provide the link between financial access and development in rural areas.

The 5 Ts: Tourism, Trade, Transportation, Telecommunication, Transfers of Donations

Accompanying remittances are other forms of transnational economic engagement. For example, migrants maintain links with their home countries by calling home and visiting. They buy foodstuffs from their home country, such as tortillas, beef jerky, cheese, rum, and coffee, often from minority-owned businesses that import and supply these goods. Migrants also spend money on phone cards; some 80 percent of immigrants buy phone cards and call their relatives for an average of two hours a month. These transnational activities reinforce the emotional bond between migrants and families at home.

Other transnational practices involve investments and donations, the subjects of Chapter 7. Migrants often want to invest in property or a small business in their home country, devoting between US\$5,000 and US\$10,000 to that activity. This practice, and its significance and impact on the economies of the home and host countries, is discussed. Migrants also raise substantial funds to help their hometowns through organized civil society groups such as hometown associations (HTA). I consider hometown associations and explore not only the activities of migrant HTAs but also their role as development players in the international arena. I look at the philanthropic and development activities of HTAs and present a set of criteria to evaluate their role as development players.

Finally, in the conclusion I examine the role of migrants in international development and the implications for development policy. Transnational activities by migrants can and do affect social change and growth in developing countries, as evinced through migrants' and their families' quest for economic and financial citizenship, as well as through their collective effort to support and develop their communities of origin. Thus, this final chapter presents a deterritorialized approach to looking at and practicing international development, which takes into account the fact that the very nature and understanding of family, community, and nation are in flux due to

migration and remittances. I conclude with a list of recommendations to help academics and development practitioners leverage the development impact of migrant activities in the contemporary global setting.

No single study can address remittance flows in all countries and all regions. That said, this book is the most comprehensive to date in its combination of breadth—including one or more country-level examinations in each region—and depth, by looking at the various angles at which remittances connect or intersect with development. The book relies on empirical work carried out in various regions and countries of the world and seeks to build a body of knowledge that informs the reader about the features shaping remittances worldwide.

Note

1. Labor mobility and economic engagement among migrants both generate a series of relationships that raise policy options to further advance development policy. These relationships are endogenous or leveraging. In the first case, some aspects of the relationship are intrinsic to the process of migration and development itself (the act of sending money alone has a positive effect on households). In the second case, aspects of the relationship inform the features that, from a policymaker's perspective, can be leveraged to advance the public good (making policy to increase asset-building opportunities to remittance recipients). The *public good* refers to the benefits to labor migrants, their families, and the community at large.

When looking at the economic exchange those migrants carry out with the home country, features that development can leverage include those typical of individual economic choices: fulfilling family obligations through remittances, investing at home, consuming home-country commodities, and performing philanthropic activities. Each activity has degrees of effects depending on asset-building possibilities for the broader public good.