Building a future back home
Leveraging migrant worker remittances for development in Asia

An Economist Intelligence Unit white paper
Sponsored by Western Union
Contents

3  Preface
4  Executive summary

7  Chapter 1: Remittances in the international economy
7  Pros and cons

12 Chapter 2: Remittances and development—case studies
14  Initiatives by migrant associations
16  Initiatives by local governments
19  Initiatives by charities and religious organisations
21  Initiatives by NGOs
21  Business networks

23  Chapter 3: Development or not?

26  Chapter 4: Outlook

29  Conclusion
Preface

Building a future back home, Leveraging migrant worker remittances for development in Asia is an Economist Intelligence Unit white paper, sponsored by Western Union. The Economist Intelligence Unit bears sole responsibility for this report. The Economist Intelligence Unit’s editorial team gathered data, conducted interviews and wrote the report. The findings and views expressed in this report do not necessarily reflect the views of the sponsor. Ron Bevacqua was the author of the report. Laurel West was the editor. The cover image was created by David Simonds.

Our thanks are due to all interviewees for their time and insights.

July 2008
Executive summary

Remittances from migrant workers are fast outpacing official aid flows and even foreign direct investment (FDI) as a source of external finance for many developing countries. Remittance flows are now double the size of official development assistance (gross flows of which, before deducting debt repayments, were US$117bn in 2007, according to the OECD). Even more surprising, in terms of value, remittances are rapidly approaching FDI flows to developing countries. Asian countries are among the biggest recipients—India was the top recipient, getting US$27bn, followed by China with US$25.7bn and the Philippines in fourth place with US$17bn.

Some estimates suggest that upwards of one billion—almost one-sixth of the planet’s population—are receiving some benefit from remittance flows. Since the vast majority of the recipients are poor, inevitably the question arises whether remittances can help to finance broader development. The issue has been hotly debated. While no formal statistics exist, based on studies of the use of remittances it can be assumed that the vast majority of them are intra-family. Detractors have pointed out that such remittances are put to mainly “unproductive” uses—satisfying basic consumption needs, buying medicine, building a house for the migrant’s retirement, or spending on “conspicuous consumption” at festivals and funerals as well as in daily life.

Without doubt such remittances improve the lives of those who receive them and in most cases have a positive multiplier effect on the local economy. However, the causal relationship between migrant remittances and economic development remains tenuous if development is taken to mean a permanent improvement in people’s productive capacity.

In the past decade, observers have noted a new phenomenon in migrant remittances that many, including the World Bank, hope can address the downside impact of intra-family transfers and lead to a sustained increase in productivity. These transfers are called communal or collective remittances and are aimed at benefiting the broader community back home.

The purpose of this white paper is to examine such transfers, the impact they are having and what can be done to make them more effective. Among the report’s main findings:

• **Collective remittances are usually aimed at infrastructure projects, rather than job creation.** Small-scale infrastructure (SSI) projects such as roads or schools meet immediate needs and have the added benefit of being easily visible to the migrants and the community they left behind. Even if such projects are successfully implemented, if they do not create jobs, they will not lead to development—or stem the tide of migration.

• **Infrastructure to enable recipients to leverage remittances is lacking.** Most migrants come from rural villages that lack basic infrastructure and access to financial services, either because mainstream banks do not reach out to this segment of the population or because microfinance institutions, which are designed to serve them, are not present. Recipients who might otherwise be encouraged to start a cottage industry are thus constrained by a lack of a safe place to save the remittances they receive, the ability to leverage them through a loan or the infrastructure to participate in a market.
Many migrant associations would like to invest back home, but lack organisational capabilities. Migrant associations on their own are usually ill-equipped to organise funding or to establish projects for investment back home. In cases where collective remittances have successfully financed a small infrastructure project or business, there has usually been an outside organisation, such as a local government, a charity, a non-governmental organisation (NGO) or a business group, providing the organisational impetus. Even then the work is challenging, because the informal nature of the migrant groups makes interacting with them difficult and expensive.

Project identification is a problem. Even if the migrants are organised and willing to pool funds to finance a project back home, they rarely have the ability to design projects. They usually ask the government authorities at home to send them a list of projects in need of support or work through intermediary agencies. This approach can backfire, however, because the sense of ownership of the project within the migrant community is diminished. The most successful projects are completed when the migrants are actively, rather than passively, involved. Developing their capacity to manage this process themselves could encourage more activity.

Capacity is a problem in the receiving communities as well. Even in cases in which the local government suggests a project that a migrant association might fund, the government often lacks the technical capacity to implement the project. This is true not only during implementation but also during operations and maintenance. The visible impact can cause distrust among the remitting migrants and hamper further fund-raising efforts. Capacity issues are even more of a barrier when the migrants attempt to support entrepreneurial activity at home, because the level of skill required is significantly higher. Even if well implemented, the social and economic impact of entrepreneurial projects often remains limited because they rarely attain a sufficient scale to be sustainable.

Leadership is the first step. The issues impeding further use of collective remittances for development are all related to one central factor—the need for leadership, both among the migrants and in the recipient community. In cases where programmes have been relatively successful a key factor has been the role taken by the government, not so much in providing funds but in supporting capacity building in the recipient towns and among the migrants.

While the problems are many, what are the solutions? What can governments and multi-lateral agencies do if they are to encourage nascent efforts to spread the economic impact of remittances? Based on the successful cases uncovered during our research, we can point to the following:

Consider the potential for macroeconomic policies to magnify the impact of remittances. Many migrants’ advocates believe governments should consider remittances in their economic development plans. If money from abroad is flowing into heretofore peripheral and ignored communities, the government should consider building education, transportation, communication and other infrastructure, so that other types of investment can be successful.

Establish permanent programmes for attracting and leveraging remittances. The success of programmes in Mexico is widely attributed to the presence of a systematic programme for attracting and leveraging

© The Economist Intelligence Unit 2008
remittances and channelling them to appropriate projects. Such programmes should be made permanent so that they are not subject to the vagaries of electoral politics.

• **Put emphasis on capacity building.** Perhaps the most critical ingredient lacking in efforts to put collective remittances to productive use is the capacity of migrant groups to organise and manage their investments. A complete package of education, including financial literacy, mentoring, guidance in business development and identification of projects is needed. Access to financial services so that the recipients can leverage the collective remittances by themselves is also important.

  One way to provide this, proposed by the International Organisation for Migrants, is to enlist skilled members of the diaspora to support the migrants and the local players on a temporary or "virtual" basis. One such programme is the Development in Africa (MIDA) programme, approved in 2001 by 24 African governments to foster diaspora involvement in development projects. A similar programme is the UNDP’s “Transfer of Knowledge Through Expatriate Nationals” (TOKTEN) programme. It provides opportunities for qualified professionals in the diaspora to contribute their services to their home countries through short-term consultancies and organises funding to support these.

• **Promote organisation among both migrants and remittance recipients.** Building the capacity of migrant groups to expand their membership, improve fund-raising practices and develop basic project management and promotion skills will be a critical factor in their success. But it is also the most difficult challenge to overcome. The chief bottleneck is that the leaders of migrant associations are usually part-timers or volunteers and thus may lack both the time and motivation to become professional managers of this process. Similarly, community leaders at home need assistance to improve their programmes and projects and to enhance their promotion schemes for attracting more remittances towards investment, making better use of the resources and opportunities available. In all these areas, carefully calibrated outside support can make an enormous difference. Concrete solutions to the organisational problem have yet to be found. Perhaps this is the area in which business can play a role. Most multinational companies today have corporate social responsibility policies in place, and the more serious among these companies are eager to identify more meaningful ways in which to contribute to the countries in which they operate—and to build future markets for themselves. Some companies are already supporting projects in rural areas, both with funding and expertise. What is missing is a forum in which to match companies willing to provide expertise (and perhaps matching funding) with migrant organisations and local communities.

  With remittances now such an important force in the international economy, it seems likely that everyone from migrant groups to their families back home, local and national governments, and supranational agencies will look to leverage them in one way or another. Researchers and development economists already recognise collective remittances as an important phenomenon. Nevertheless, serious gaps remain in the understanding of this practice, especially in Asia. Additional data and knowledge sharing about the successes and challenges of such programmes are the next logical step in identifying how best to leverage remittances for development.
Chapter 1: Remittances in the international economy

Migrant worker remittances have grown to be a major force in the international economy. For many countries, remittances are their most important source of capital inflows. The World Bank estimates that about US$318bn was remitted globally through formal channels in 2007 and that more than 75% (US$240bn) went to developing countries. When unrecorded transfers remitted through informal channels are included, estimates are significantly higher.

Remittance flows are now double the size of official development assistance (gross flows of which, before deducting debt repayments, were US$117bn in 2007, according to the OECD). Even more surprising, in terms of value remittances are rapidly approaching FDI flows to developing countries. According to the United Nations Conference on Trade and Development (UNCTAD), total FDI into developing countries was US$379bn in 2006; excluding China (US$70bn), the flow to developing countries was US$309bn. Using a different methodology, the Institute of International Finance estimates the total amount of FDI to emerging markets in 2007 to be even lower at US$256bn, of which US$181bn was received by countries excluding China.

The top four recipients of migrant remittances in 2007 were India (US$27bn), China (US$25.7bn), Mexico (US$25bn), and the Philippines (US$17bn). As far back as 2004, Dilip Ratha of the World Bank noted1 that in 36 out of 153 developing countries, remittances were larger than all capital flows, public and private. With remittances having risen 50% since then, the number of countries that receive more from their own expatriates than from private investment and government donations has surely risen further.

Pros and cons

Is the rising value of remittances a positive or a negative development? That depends on how you measure, whether you look at the short-term or

---

Building a future back home
Leveraging migrant worker remittances for development in Asia

the long and whether you are thinking of the individual or the community. Remittances differ fundamentally from other financial flows in that their impact is felt directly at the grass-roots level. They are more often than not person-to-person flows within a family. They go directly to the recipients, who are very often poor, to be used as they see fit rather than waiting for the trickle-down effect of development assistance or private investment.

Some estimates suggest that the number of people receiving some form of economic benefit from remittances is upwards of one billion—almost one-sixth of the planet’s population. Since the vast majority of the recipients are poor, inevitably the question arises whether remittances help finance development. In the early research on remittances, this issue was hotly debated. Detractors pointed out that funds remitted back home are put to mainly “unproductive” uses—satisfying basic consumption needs, buying medicine, building a house for the migrant’s retirement, or spending on “conspicuous consumption” at festivals and funerals as well as in daily life. For example, a survey of 22 localities in western Mexico in 1994\(^2\) found that two-thirds of households spent their “migradollars” on consumption.

This pattern shows little variation across regions. All analyses of the use of remittances show that first and foremost, families use remittances to meet their basic needs. Once those needs are met, recipients spend a large portion of the money on the purchase of land, and home construction and repair. While in many cases such spending is deliberately conspicuous, it is also true that in most developing countries, especially in the rural areas from which most migrants tend to originate, land is the most profitable and safest investment. Land values tend to increase over time. Furthermore, newly purchased farmland provides a direct economic

<table>
<thead>
<tr>
<th>Basic needs</th>
<th>% of remittances used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>Brazil</td>
</tr>
<tr>
<td>Food and clothing</td>
<td>20-35%</td>
</tr>
<tr>
<td>Purchase of land or home construction and repair</td>
<td>5-70%</td>
</tr>
<tr>
<td>Repay loans</td>
<td>10-19%</td>
</tr>
<tr>
<td>Marriage and ceremonies</td>
<td>0-10%</td>
</tr>
<tr>
<td>Savings</td>
<td>3-7%</td>
</tr>
<tr>
<td>Funding other people’s migration</td>
<td>0-7%</td>
</tr>
<tr>
<td>Education and health care</td>
<td>1-9%</td>
</tr>
<tr>
<td>Investment in business</td>
<td>0-5%</td>
</tr>
<tr>
<td>Other</td>
<td>n/a</td>
</tr>
</tbody>
</table>


return through crop production, while newly built homes can bring in rental income.

Next on the list of uses of remittances is the repayment of loans. These are often the loans that funded the migration process. Other loans that are paid back include mortgages on land. Often in rural areas families will mortgage farm land to raise money to finance migration, or for emergency or other needs.

Remittances obviously help to improve the quality of life of those back home, and hence they have at least a short-term impact on poverty. But the longer-term impact is less certain. As is clear from the table Basic needs above, very little of the remittances seem to be saved or invested, which seems to give credence to the view that the funds do not finance development. But as the size of remittances has grown, more recent analysis has led many to conclude that even funds spent on consumer items and construction have multiplier effects that boost the local economy. For example, a study in Mexico found that every US$1 received in remittances generated an additional US$0.78 in additional income due to demand generated for locally produced goods and services.

The increased consumption demand by migrant households can trigger investments by other households or enterprises to meet this demand. The Mexico study, for example, found that each US$1 remitted stimulated investments in physical capital and schooling by US$0.25 and US$0.13 respectively among both migrant and non-migrant households in the village.

If funds remitted back to the migrant’s village have multiplier effects that stimulate investment by others in the village, it should also be the case that the families of the migrants, who are the “nouveau riche” of the area, also make such investments. There is some evidence that this is the case. Research in Pakistan and Thailand, for example, shows that some rural families left behind by migrants used remittances to hire labour and purchase farm equipment, leading to an increase in productivity and output.

Some studies show that remittances are invested directly into small family businesses or micro-enterprises. Research conducted in 2001 on 6,000 small firms located in 44 urban areas of Mexico found that remittances are responsible for almost 20% of the capital invested in micro-enterprises. In the ten states with the highest rate of migration, it was estimated that almost one-third of the capital invested in micro-enterprises is associated with remittances. Yet it is important to note that the study focused only on urban areas, where such investments are more likely to be profitable. The vast majority of the world’s remittance senders, in contrast, come from rural areas.

Based on research conducted to date, the use of remittances to invest in micro-enterprises is still quite rare. The results in the table above make it clear that only a very small percentage of remittances is invested in business or other enterprise ventures, such as purchasing a sewing machine to make clothes for sale. It may be the case that the remittances were leveraged to obtain a loan from the country’s well-developed microfinance industry, but little evidence appears to support this.

---

The reason for this may be that many migrant-sending families do not have the access to financial services needed to leverage the funds they receive. Even if such mechanisms exist, it may be the case that the recipients do not have the experience or desire to launch an enterprise; or, if they do, the rural areas from which they originate are not fertile ground on which to launch a successful business.

There is no doubt that remittances provide an important buffer against the risks to livelihood that the poor face daily. There is also no doubt that on the margins they finance an improvement in human and social capital, as well as enhance savings and investments.

However, remittances can have a negative impact. There is often a concern that remittances foster dependency on external resources. Further, this income may eventually lead to a sort of “migration syndrome,” encouraging more people to migrate and increasing the community’s dependence on remittances, rather than on investment.

Roger Ballard, director of the Centre for Applied South Asian Studies at the University of Manchester, has observed this syndrome in Kashmir. “The arrival of migrant remittances is often accompanied by a paradoxical outcome: the emergence of dependency and stagnation, rather than economic growth,” he noted in a 2003 study.6 “The inflow of remittances appears to promote a massive expansion in the remittance-led service sector, accompanied by a much more limited—often negative—impact on the region’s underlying real economy. In the worst-case scenario, remittances generate a condition of such comprehensive economic inactivity that the only rational strategy for ambitious young adults is to migrate.”

The main cause of this state of affairs, according to Mr Ballard, was the fact that migrant remittances were used to buy land for prestige and speculation rather than for agricultural production. With migrants’ families expecting to earn income from real estate, farming was neglected. If, as a result, agricultural production failed to feed the family, more people simply migrated away.

Dependency is not the only negative impact from remittances. Often, such remittances create a wide disparity between the haves and the have-nots. Migrant-sending families often come from poorer backgrounds than others in their community, and their new-found wealth upsets the local social hierarchy. One study in Punjab state in India7 found that many overseas Punjabis are from the third-tier Jat caste. Jat Sikh families tend to receive the majority of remittances, and the benefits of religious and community projects that these remittances support.

Mr Ballard notes that this is often the case throughout the subcontinent. “Families with access to such transnational links soon become massively advantaged, disrupting established socio-economic hierarchies in their villages of origin,” he notes. “This creates bad feeling among the established elites who often remark that ‘these people have far more money than they know what to do with’. Those locals in a [formerly] similar social position to the migrants tend to react with intense jealousy, and so begin to make immediate efforts to migrate.” In this way, intra-family

---


remittances can be a double-edged sword, the impact of which depends on who receives the money and how it is used back home.

While no formal statistics exist, based on studies of the use of remittances it can be assumed that the vast majority of transfers are intra-family. Such remittances bring enormous benefit to the recipients and the local community, though these benefits should be balanced against the potential negative impacts they have in the local economy and society. More specifically, while in most cases remittances have a positive multiplier effect on the local economy, the causal relationship between migrant remittances and economic development remains tenuous if development is taken to mean a permanent improvement in people’s productive capacity.

In the past decade, observers have noted a new phenomenon in migrant remittances that many hope can address the downside impact of intra-family transfers and may lead to a sustained increase in productivity. These transfers are called communal or collective remittances.
Chapter 2: Remittances and development—case studies

Collective remittances have deep antecedents. In a number of countries in Africa, Asia, Latin America and the Caribbean region, there are long traditions of migrants pooling their funds to build social assets and facilities such as schools, clinics, community centres, roads and small irrigation projects back home. Only in the past few years, however, has this phenomenon been documented and efforts made to institutionalise it in order to promote economic development in the countries of origin.

Although they can potentially support economic development, collective remittances differ markedly from country-to-country assistance or business-to-business investment. The migrants are not investing in abstract concepts such as “Mexico,” “the Philippines,” “Sri Lanka” or even “profit.” Rather, they are investing in the families and immediate communities they come from.

Due to both a longer history and earlier recognition by academics and policymakers, the most well-known and institutionalised of these collective-remittance programmes are among Mexican migrants in the US. In the large metropolitan areas of Los Angeles, Chicago, New York, Dallas, and San Antonio, Mexican migrants from the same or nearby villages have formed hometown associations (HTAs). Hundreds of these organisations exist to provide social support to the migrants and connect them to others with whom they share common experiences. In 1998, the Ministry of Foreign Affairs in Mexico produced a list of 446 clubs or associations of Mexicans in the US. More recent estimates put the figure in the thousands.

The HTAs organise dances, picnics, raffles, beauty pageants and other cultural events. These events achieve two major purposes. First, they promote a sense of community among compatriots by fortifying social ties, promoting the cultural manifestations of their hometowns, and fostering the socialisation of the sons and daughters of the migrants. Second, they serve as fund-raising events for the organisation.

Originally the HTAs raised funds to finance their activities in the host country. In the past decade, however, on their own initiative some of these HTAs have begun collecting voluntary donations from their members to support small-scale infrastructure (SSI) development initiatives in their hometowns. For example, the Asociación San Mateo Cajonos was created in Los Angeles in 1989, but it was not until 1997 that it began supporting social projects for its hometown. It initially provided part of the funds for the pavement of some streets. Later, it funded a water pump, and more recently it partially funded the purchase of a dump truck for community use. It has also funded the purchase of a property on which a school will be built.

Many of the Mexican HTAs began as social networks revolving mostly around hometown patron-saint day parties and soccer games. The Asociación Santa Ana del Valle existed for a
number of years as a sports league named “Raza Unida” until it was reconstituted as an HTA in 2000. It funded the purchase of a bus, the first ever in their hometown. Later, it also funded a kindergarten. In both cases, it collected funds from a list of either settled or recent migrants from their town in Mexico to the Los Angeles area.

While the collective activities of certain HTAs have received enormous attention, not many are as successful as the two cited above. The main limitations they face are organisational problems and lack of appropriate capacity. The Organización Macuiltianguense 2 de abril, for example, has carried out only one important project in its hometown: the building of a metal gate for the rodeo ring for which it was only able to provide half the necessary funding. Similarly, the Comunidad Tlacolulense de Los Angeles (COTLA) has existed since 1989. Though the members of this association point out the various needs in their community as a major reason to get organised, they have not yet been able to implement a single project in their community of origin.

When migrant Mexican HTAs have been successful, they have generally raised US$15,000-20,000 per year, though collections as high as US$50,000 for the largest and best-organised HTAs have been recorded. Given their size and purpose, in the late 1990s some state governments in Mexico recognised their potential and began efforts to increase such flows. These efforts received an enormous boost when one of the state governors, Vicente Fox of Guanajuato, became president of Mexico in late 2000. He expanded Guanajuato’s Adopta una Comunidad programme, under which remittances were channelled into community projects, to the 90 Mexican regions (a total of 1,140 communities) with the highest migration rates.

Perhaps the most successful and well-known of these programmes has been the “Tres por Uno” (“Three-for-one”) programme which was launched in the central Mexican state of Zacatecas. This programme channels community remittances to SSI projects. The programme takes its name from the fact that for each US$1 contributed by the migrants, the different levels of government in Mexico contribute US$3 more: one from the federal government, one from the state government and one from the municipal government. In the first ten years of the programme total investment from the migrants reached US$10m. (The programme has since evolved to incorporate a 4+1 programme with the involvement of Western Union, the sponsor of this report. It now provides not only matching financing but also technical assistance to the HTAs for projects that focus on investment in productive enterprises rather than infrastructure.)

While the activities of the Mexican HTAs are the most widely known and institutionalised, instances of collective remittances for development have been noted anecdotally in almost every migrant community of any size in every part of the world.

Asia is no exception. Despite having achieved the best economic performance of any region of lesser-developed countries over the past 30 years, many Asian countries remain exporters of surplus labour. Strong kinship and community ties ensure that when migrants go abroad in sufficient numbers they are likely to form groups.

Most remittances are sent by the migrant back to his or her family. But migrants have always

---


© The Economist Intelligence Unit 2008
responded to emergencies or natural disasters by pooling funds to be sent back collectively. As migrant communities have grown to the point that there is a critical mass of migrants from one location, their organisational skills have improved. Some of these migrant groups have sought to systematise collective remittances as a way to both give back to their community of origin and, perhaps, stem the tide of people who need to leave in order to improve their lives.

In systematising any view of collective remittances, two factors come to mind: how the migrants manage to overcome “collective action” problems in order to work together towards a common goal; and, once the migrants are working together, what goal they choose to work towards.

How do such collective remittances come about? From the limited research done to date there seem to be five different methods of organisation:

- migrants organising on their own accord (migrant associations);
- local hometown government officials approaching the migrants;
- charities and religious groups acting as an intermediary for the migrants;
- NGOs providing technical support to the migrants; and
- business groups collecting funds from migrants for investment back home.

Regarding the goals, they roughly fall into two categories: collective funds remitted to finance SSI projects (schools, clinics, religious buildings, roads and so on); and those used to invest in entrepreneurial activity.

**Initiatives by migrant associations**

As noted above in the description of the Zacatecas and Guanajuato programmes, the “model” examples of collective remittances are those achieved under the initiative of the migrants themselves through migrant associations. Such associations appear to be extremely common among migrant communities around the world, being the most obvious way for the migrants to obtain social support and meet others with whom they share common experiences as they settle into a foreign land. They help to preserve ties and identity for the migrants while providing them with valuable information, such as obtaining jobs and housing, as well as learning the ropes of living in their new country.

In the case of Mexican migrants, most groups are based on a common place of origin. However, any common factor can bring migrants together: church, profession, school, community, cultural groupings and so on.

For whatever reason migrant associations exist, they exist in large numbers. Although the total number of HTAs is unknown, estimates suggest that Mexican HTAs in the US number somewhere around 3,000. Among Filipino migrants, the Commission on Filipinos Overseas has approximately 4,000 associations as members, and the Philippines Department of Labor and Employment has a list of 12,000 overseas Filipino associations.

Migrant communities may be more organised in certain places than in others. Among South-east

<table>
<thead>
<tr>
<th>Collective action</th>
<th>Percent of South-east Asian remitters who contribute to a migrant association</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Country of residence</strong></td>
<td><strong>Country of origin</strong></td>
</tr>
<tr>
<td>Japan</td>
<td>43</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>75</td>
</tr>
<tr>
<td>Singapore</td>
<td>9</td>
</tr>
<tr>
<td>Malaysia</td>
<td>88</td>
</tr>
</tbody>
</table>

Asian migrants, for example, while more than one-quarter of Malaysians living in Japan contribute to an HTA, only 4% of their counterparts in Singapore do. Indonesian migrant communities also display a similar degree of variation while Filipinos show less. The degree of diversity (geographic as well as in terms of profession) among the migrants and cultural traditions play an important role in determining their participation in migrant associations.

Migrant associations function first and foremost as social support organisations for migrants. Initially focused on migrant integration and welfare in the host country, they have always been financed by fund-raising efforts, from simply collecting voluntary donations to raffles and bake sales. As their fund-raising capability developed, the associations began to be concerned with economic co-operation and development in their home countries as well, often liaising with local government officials in the home community in order to implement their projects.

Nevertheless, the number of migrant associations which conduct this kind of fund-raising remains small. On average only about 9% of remittance senders of Latin American origin in the US contribute to a migrant association. Surveys have shown that 29% of remittance senders from Guyana who live in the US contribute to an association, while 16% of Jamaicans do so.

The influence of migrant associations is limited not only by funding but also by organisational restraints. The majority of migrant associations remain informal. Even when they are led by a board of directors or elected officials, the leaders are almost always volunteers who have regular full-time jobs. Due to the voluntary nature of groups and the working-class profiles of their members, who frequently work more than one job, the amount of time devoted to association activities is often limited.

More importantly, the leaders are usually not trained or experienced in the organisation, implementation, or evaluation of development projects. Lacking these skills and not understanding the development priorities back home, many associations do not work effectively with local community stakeholders, giving rise to tensions in the selection and implementation of projects. Even when a project is successfully brought to completion, the associations often cannot ensure that the community will properly care for the new facilities or donations for their operation.

Finally, since such associations are often organised around particular religious or ethnic communities, the projects they choose can be divisive and end up weakening the very community they are attempting to support.

Given all of these constraints, it seems that successful implementation of development programmes through collective remittances organised by migrant associations such as those in the Zacatecas programme is much more the exception than the rule. There are, however, other examples of success.

Among Filipino migrants, who exhibit a strong tendency to form groups, the Ivory Charities Foundation of Southern California was formed by Filipinos in Huntington Park to improve the quality


of life in Butuan City in northern Mindanao. The 
foundation works with a sister organisation in 
Butuan City to support projects, including food 
distribution, book donations to the city library, the 
provision of medical supplies and equipment for 
the city hospital, and the digging of artesian wells. 
The Boholanos of Las Vegas, another Filipino HTA, 
funds a bee-keeping livelihood programme in their 
home province of Bohol.

A study of Bangladeshi diaspora communities in 
the UK and US (conducted by Bangladesh’s 
Ministry of Expatriates’ Welfare and Overseas 
Employment and the International Organisation 
for Migration)\(^{12}\) found a number of HTA-like 
organisations collectively raising funds to build or 
support schools or mosques, repair infrastructure, 
provide scholarships for students, and organise 
relief and reconstruction activities in the 
aftermath of natural disasters. Among them are 
the Greater Noakhali Welfare Association of 
Georgia, the Greater Chittagong Welfare 
Foundation of Florida, Habiganj Zila Samity of New 
York, and Sunamganj District Social Welfare 
Society in the Bronx as examples in the US, and 
Bianibazar Association of London and Baniachang 
Association of the East End in the UK.

The main mechanism through which these 
organisations collect and remit funds is a trust. Via 
the trust they pool money together and 
collectively decide on what the money should be 
used for. Most often the money is given for clinics, 
mosques or educational projects in the villages 
where the expatriates come from. Also common is 
support for the construction and repair of roads 
and culverts, and the provision of scholarships to 
students. These groups also mobilise funds 
following natural disasters, organising and 
financing relief and reconstruction efforts.

However, the initiatives listed above and the 
trusts to which they contribute are very small-
scale. The Greater Chittagong Welfare Foundation 
of Florida, for example, contributed US$500 to the 
construction of a hospital in Cox’s Bazar. In fact, 
the existence of the trusts is not well publicised 
even among members of the migrant groups, and 
since the groups are run by volunteers they do not 
have the time and capacity to conduct due 
diligence on organisations in Bangladesh that 
would be willing to receive money from the trusts.

It is not just a lack of knowledge that prevents 
more Bangladeshis and other migrants from 
investing back home. In addition, says K.A. 
Chowdhury of Shahjalal University in Bangladesh, 
the migrant community in places like London 
prioritises investing in its host country. Not only 
do migrants think it is more productive to invest in 
the UK, but they consider the UK, not Bangladesh, 
as the place where they want to build a future.

**Initiatives by local governments**

Funds remitted collectively on the initiative of the 
migrants themselves, while well publicised, are 
quite rare. Even when HTAs and similar migrant 
associations are able to collect sufficient funds, 
they simply lack the capacity to choose 
appropriate projects and work with the community 
leaders back home.

In order to overcome these obstacles, local 
government officials have in some cases taken the 
initiative to collect funds from migrants for 
projects they have chosen. In this case, according 
to Sari Canyete Jotojot of the Asian Migrant Centre 
in Hong Kong, the officials initially approach 
members of the migrants’ families who have

---

\(^{12}\) Tom de Bruyn and Umbareen Kuddus, “Dynamics of Remittance Utilization in Bangladesh”, International Organization for Migration, Migration and 
Development programme, January 2005
remained behind. The family members then contact the migrants, who bring the issue to the attention of their local association. Migrants have an incentive to do this because leading such an effort brings them prestige in their community.

If the migrant association views the proposal positively, the local officials will travel to see the migrants, often at the expense of the migrant association itself. These “road shows” can have a substantial impact on a rural town, as has been the case in the Filipino municipality of Pozorrubio in the northern province of Pangasinan.

Pozorrubio’s main economic activity is agriculture. However, the town has developed far beyond what its local economic activity would otherwise indicate—10% of the population is overseas and is actively encouraged by the local government to remit collectively for public works. As far back as 1986 the mayor visited Pozorrubians in northern and southern California, Chicago, Hawaii, New York, Washington and Hong Kong. He encouraged them to form their own solidarity groups, elect officers, and identify projects and programmes in their hometown to which they could make donations. For example, Pozorrubio previously had no street lights, but when the mayor encouraged the families of migrant workers to voluntarily set up sidewalk light posts in front of their own houses, the whole town lit up.

As the Pozorrubian migrants became better organised, the local administration began encouraging the migrants to give their donations straight to the beneficiaries. It invited Pozorrubian migrants to come back home and see for themselves the improvements in the town and the impact their remittances had. Return migration was the theme of the 2002 town fiesta (“Sempet [Come back home to] Pozorrubio”). Return migration also becomes a mechanism for migrants to not just see the physical benefits of their donations, but to maintain transnational relations between origin and host societies.

As a result of these efforts, Pozorrubian migrant communities abroad financed construction of a park in the town square and a new library, and refurbished a high school’s English learning centre with books, a karaoke unit, a mini-stage and lights. The community hospital received an electrocardiograph, a computer, a comfort room, a septic tank, hospital bedding, stethoscopes, window screens, medicines, and ceiling and electric fans. The hospital receives annual medical missions from locally born doctors now living abroad, and the medicines are distributed to the local residents for free.

The multiplier effect of these remittances has been enormous. By 2001 this rural town of 56,000 had Internet cafés, car-rental services for returning migrants, video rental shops, and a rural bank with over US$2m in deposits but with just a few borrowers. It also had 12 public and private irrigation facilities, 50 manufacturing establishments, six big private housing subdivisions, and 32 day-care centres. This level of development is almost never seen in the rural Philippines, even in the larger rural towns or municipalities. Moreover, the town’s tax collection is one of the highest in the region, with most of the revenue collection coming from the town’s busy public market.

Other local government units (LGUs) in the Philippines have taken different approaches to institutionalising mechanisms and incentives to encourage expatriates to invest in enterprises, tourism, light industrial projects and other provincial projects. The most visible example is the province of Bohol in the Visayas, which has set up an investment centre and enacted a local investment code to assist investors in identifying, organising, and matching their resources with...
local partners. The centre also provides incentives to investors, such as exemptions from income and property taxes. Local government officials travel overseas to make personal appeals to the province’s extensive expatriate community, and then provide assistance and guidance as visitors tour the islands or meet with their potential business partners. The Island Garden City of Samal, near Davao City, passed a similar local investment code geared towards developing the city’s tourism and beaches.

Some LGUs in the past few years have gone a step further, creating a specific financial instrument for migrants to invest in. These so-called LGU bonds are designed to finance infrastructure such as public markets, wharves, convention centres and other public improvements that generate additional tax revenues for the LGU. The benefit of these bonds is not only that they are seen as savings and investment instruments by the migrants, but also that they have professional management and transparency, thus overcoming migrants’ fear of political mismanagement of their contributions.

Taking its cue from the LGUs, the Philippines’ central government has also created incentives, including tax breaks and privileged investment options for overseas residents, while facilitating the transfer of funds. Two related government programmes collect migrant resources for development. The first is the Philippine Sectoral Development and Needs Profiling System, commonly known as PHILNEED, which provides information on projects gathered from the LGUs and local NGOs to potential Filipino contributors abroad. The second is LINKAPIL (Lingkod sa Kapwa Pilipino, or Link for Philippine Development Assistance) which, working through local

---

**Building a future back home**
Leveraging migrant worker remittances for development in Asia

---

**Getting the money home**
How the LINKAPIL system works

1. **Filipino associations overseas**
2. **Philippine embassies/consulates**
3. **Commission on Filipinos Overseas**
4. **Dept of Education**
5. **Dept of Health**
6. **Dept of Social Welfare and Development**
7. **National Economic Development Authority**
8. **OTHERS**
9. **Department of Finance**
10. **Bureau of Customs**
11. **Beneficiaries**

- Signify intention to donate
- Authenticate documents
- Coordinate with relevant agencies and monitor donation
- Endorse request for duty-free importation
- Process request for tax exemption
- Process release of donations
- Receive assistance and submit utilisation report

Source: Commission on Filipinos Overseas

---

© The Economist Intelligence Unit 2008
embassies and consulates to mobilise migrants’ savings, channels those funds to education, healthcare, small-scale infrastructure and livelihood-support projects back home (see chart).

Overseas Filipinos have responded positively to the LINKAPIL and PHILNEED programmes because, like the LGU bonds, they provide more direct links between donors and recipients even if the central government is the intermediary. From 1990 to 2005, LINKAPIL generated P1.89bn (US$45m) in donations, 60% of which went to healthcare.

Initiatives by charities and religious organisations
Another channel through which migrants remit collectively is charities that have been established specifically to nurture and facilitate collective remittances. Whereas migrant associations often find a frustrating gap between the types of projects they are interested in funding and the local government’s needs, the interests of migrants and charities are usually more closely aligned. For example, the heavy concentration of LINKAPIL remittances in healthcare, relief assistance and education illustrates the preference of migrants who are remitting collectively for humanitarian and social development projects rather than straightforward infrastructure investments. Charities tend to focus their activities in these areas as well. On the whole, charities can be far more effective in utilising collective remittances because they have an in-built capacity to carry out the projects they promote, whereas the migrant groups themselves and the local governments often do not.

For example, the Filipino-American Community of South Puget Sound in Washington state has collected more than US$200,000 and remitted it to a foundation in Bislig City in Mindanao to finance rehabilitation and livelihood programmes for disabled people in the region.

A typical charity collecting funds from migrants for use back home is the Guru Nanak Mission Medical and Educational Trust (GNMET), established in Punjab in 1984. The founder and president is Budh Singh Dhahan, who emigrated from Punjab to Canada in 1960. Starting out as a labourer in a sawmill, he eventually established a construction/property company. Having become successful, he decided in 1979 to move back to Punjab to assist the poor directly through health and education development.
According to Margaret Walton-Roberts, associate professor of geography and environmental studies at Wilfrid Laurier University in Waterloo, Canada, Mr Dhahan conducts regular fund-raising visits to various cities in Canada as well as the US, UK and Norway. Before he built a network in those cities, he would search local phone listings of the over 100 different sub-caste names from the Punjab region. Personal meetings with Mr Dhahan built confidence in his project and the shared sense of place among Punjabis scattered throughout the world led the migrants to contribute.

In 1984, Mr Dhahan opened a 40-bed hospital in the Nawanshahar District of Punjab state. In 1987 a school was added. The Guru Nanak College of Nursing was opened in 1993 with a diploma programme in nursing, and in 1998 a baccalaureate degree programme in nursing began with an intake of 50 students. A collaboration with the University of British Columbia School of Nursing is also under way, involving faculty and student exchanges and development of the nursing curriculum.

GNMET and its achievements are the result of one man’s vision and energy. Many other charities that serve to link migrants with development efforts in their countries of origin exist in a more institutionalised form. Many grow out of the local religious movement. In the Philippines, where the Catholic church is exceptionally strong, church-affiliated groups such as Gawad Kalinga have collected more than US$500,000 to build homes in depressed areas or to replace slums.

Religion plays an extremely important role in collective-remittance programmes in South Asia. Their purpose is explicitly charitable, having been organised to build or repair a specific village shrine, mosque or temple. Some have extended their activities to initiatives to building schools, clinics and hospitals, and to provide disaster relief.

Among Indian migrants in the US there are over 200 temples and 500 Hindu religious movements collecting funds for use back home. While most direct their service and welfare efforts towards broad, generic and conventional areas such as education and health, a few have extended their service spheres into areas such as rural development, environment, income generation and women’s empowerment.

One such organisation is the Chinmaya Mission, which has conducted such programmes since 1985 and decided to institutionalise its efforts by creating the Chinmaya Organisation for Rural Development (CORD) in 2003. CORD addresses female empowerment issues by creating “Mahila Mandal,” village-level forums for rural women to discuss personal and economic concerns, and “Yuva Mandal,” youth groups for girls to support their education and skills development, and also to address dowry, caste, and adolescent health issues which are usually not openly discussed in the family and community.

CORD also encourages the women and girls in these groups to establish small-scale savings and loan services, or introduces the groups to local microfinance institutions. In order to support income-generating activities for these women, CORD facilitates training and capacity-building in agriculture, dairy, small shops, food products, fabrics (weaving, sewing, embroidery), knitting, traditional paintings, bamboo products and various services. For example, the Chinmaya Seva Centre helps women to sell carpets and clothes that they produce through outlets in Bangalore, New Delhi and Sidhbari.

With more than 50 centres outside of India, the Chinmaya Mission actively solicits funds from its local members in order to finance these projects.
via websites and by hosting events. It also has ties with aid agencies. For example, the Canadian International Development Agency provides matching grants to the funds raised by Chinmaya Mission in Canada. In contrast to the examples cited above, which focused on remittances by migrant labourers, donors to charities such as these tend to be white-collar professionals who are more likely to be part of the permanent diaspora rather than temporary workers.

**Initiatives by NGOs**

NGOs are also playing a key role in efforts to mobilise collective remittances. Indeed, they are playing a critical role in co-ordinating efforts to encourage the investment of remittances in entrepreneurial ventures, as opposed to community infrastructure (discussed in more detail in the next chapter).

One such NGO that is becoming known for its efforts to mobilise migrant worker resources for productive use and community development is Unlad Kabyan in the Philippines. It offers three services to migrants: savings accounts, identification of and investment in existing businesses, and special start-up funds for new businesses. Besides savings mobilisation, Unlad also provides skills training, logistical support and networking, and a social support programme to educate and organise migrant workers.

According to Maria Angela Villalba, the executive director of Unlad, her organisation started working in Hong Kong to help the large community of Filipina domestic workers save money for future investment back home. Savings groups were mobilised with the help of their partner, the Asian Migrant Centre, and training on business skills and savings habits was provided. As the funds saved reached higher levels, Unlad helped to identify possible business prospects that could be capitalised on with the participation of family members still in the community. It also conducted feasibility studies. It now has partners in a number of countries in Asia.

A similar initiative by two sister NGOs, Atikha and BaliKaBayani Foundation, also focuses on savings mobilisation for enterprise development. Hoping to build deep capacity among the migrants, the programme has launched the Atikha Young Savers Club, which aims to teach financial literacy to the children of migrants.

Unfortunately, the number of success stories in this area is still quite small. Problems ranging from poor macroeconomic conditions, unfavourable taxes and regulations, lack of capacity among the migrants, and lack of managerial skill among the investees back home make such activities, no matter how necessary, difficult to implement successfully.

**Business networks**

Undoubtedly the best way to ensure that migrant remittances are used to finance enterprise development is through straightforward investment. Funds for this purpose are often collected through business networks in host countries. Such business networks vary from chambers of commerce to non-profit organisations to informal groups of professionals. The Lebanese Business Network, for example, is a non-profit “business development vehicle” with an online marketplace and business-matching database. Its goal is to create links between migrants and Lebanese entrepreneurs by identifying business opportunities and potential areas of partnership. Similarly, Indian information technology (IT) entrepreneurs and professionals have established a number of business networks which match experienced entrepreneurs and start-up managers in a mentoring relationship, and
back up promising enterprises with venture-capital investment.

The country that most utilises migrant remittances for pure business investment is China. In 2007 China became the second largest recipient of remittances in the world. About one-quarter of these flows are from overseas migrant workers sending money home. The vast majority, in contrast, are funds sent home by overseas Chinese as direct investment in business ventures.

Official encouragement of such remittances began in earnest after the student uprising and subsequent crackdown in 1989, when many non-Chinese foreign firms divested. In addition to special regulations for encouraging investments by overseas Chinese, the 1990 Law on the Protection of the Rights and Interests of Returned Overseas and Relatives of Overseas Chinese gave family members in China the right to receive remittances from overseas, and ordered local governments to support their efforts to establish commercial, industrial or agricultural ventures.

The main government body for mediating relationships with Chinese communities overseas is the Department for Overseas Chinese Affairs (Qiaoban). Its work is considered important enough that it is under the direct jurisdiction of the State Council (China’s equivalent of a cabinet). Over the past 20 years the Qiaoban has been increasingly active in sending delegations to visit Chinese communities abroad.

The department also works through its affiliated “mass organisation,” the All-China Federation of Returned Overseas Chinese (Qiaolian). Although set up in 1949 as a propaganda organ, in recent years its emphasis has shifted towards promoting cultural exchanges and mainland tourism for overseas Chinese, which is part of a broader effort to help overseas Chinese identify investment opportunities.

The central government is not the only player that has sought to attract investment from overseas migrants. Entrepreneurial local officials have wooed emigrant families to invest in their ancestral villages. They have simplified the process and regulation of investment, and made concessions in taxes and fees to encourage investment.

The direct and short-run impact on poverty reduction from the business-oriented model may be less than from a remittance-led pattern that puts income directly into the hands of the poor. But the prospects of continued job creation are likely to benefit the poor in the long run.
Chapter 3: Development or not?

Whether organised by hometown associations, local governments, charities or religious groups, in almost all the examples discussed in the previous chapter, migrants remitted funds collectively to finance education, healthcare and the construction of public buildings. While it seems natural that collective remittances are used for community projects, such activities have also drawn criticism because they are, in fact, projects that the local governments should be paying for from the taxes they collect. Looked at this way, migrants are substituting for effective local governance. As these kinds of collective remittances grow, there is a risk that local governments will become dependent upon migrants in rather the same way some families and communities are. Moreover, it is not clear whether such programmes truly lead to development, if by development one means a permanent increase in the productive capacity of the people left behind by the migrants.

Development is a notoriously slippery concept. Despite more than a century of study by economists, political scientists, sociologists and environmentalists, there is no clear consensus on what development means, much less how it can be achieved.

For the purposes of this analysis, development is defined as a permanent increase in the productive capacity of a group of people. Production here is defined loosely, referring not specifically to manufacturing output but more broadly to the ability to manage more complex tasks that provide higher “value” to the economy. In other words, economic development is, ultimately, human development.

This definition is an important component in the debate over how exactly collective remittances should be used to best foster development. So many factors can go into increasing productive capacity. Better schools can produce citizens with a higher capacity to produce; better clinics improve their health; better infrastructure can support their efforts to earn a living; and better religious and civic institutions foster the “social capital” that is difficult to quantify but crucial for all developing societies.

But the poor linkage between projects of the kind discussed above and economic development has been recognised even in Zacatecas, the model case for collective remittances. A new school, clinic or road is always welcome, but by themselves they do not stem the economic crisis that forces people to migrate away in the first place. As one member of a Zacatecas HTA in the US was quoted as saying, “What we’d like is to improve the conditions in our town. That way migration could be slowed down just a little bit … so if we could, we’d love to have more jobs over there so that people could stay with their families.”

SSI projects meet immediate needs and have the added benefit of being easily visible to the migrants and the community they left behind. Yet all these projects have an indirect impact, and the impact is felt only over long periods of time. And, even if they are successfully implemented, if no jobs are created, they will not lead to development—or stem the tide of migration.

---

13 Felipe H. López, Luis Escala-Rabadan, and Raúl Hinajosa-Ojeda, Migrant Associations, Remittances, and Regional Development between Los Angeles and Oaxaca, Mexico, May 2001
For this reason, some of the players in the world of collective remittances have begun to consider ways the funds can be used to support enterprise activity, which usually refers to shops, services and light-manufacturing activities that provide jobs to the communities.

While there are cases of such investment, such as the initiatives led by the Guanajuata government and Unlad Kabayan, they remain much less common than SSI investment.

The most important reason for this is macroeconomic. As one member of an Oaxacan HTA pointed out: “It’s very difficult to think of a successful business in our town; our town is small, and it’d be very hard to keep it up. If we can hardly maintain our families down there, it would be more difficult to sustain a business down there. That we all want to have one, that’s true. We’d like to, but we can’t.”

These conditions are true in most rural areas that export their labour. “Most migrant-sending communities are rural villages distant from natural markets and lacking basic infrastructure such as paved roads, electricity, running water, sewage, and phones,” notes J. Edward Taylor, a professor of rural economics of the Americas and Pacific Rim at the University of California, Davis. “Many are characterised by poor quality land, a fragmented tenure system and unequal land distribution. It is unrealistic to expect migration to promote development where complementary infrastructure, service and ecological conditions are so unfavourable.”

Many remittance-receiving families in these areas lack access to financial services, either because mainstream banks do not reach out to this segment of the population or because microfinance institutions, which are designed to serve them, are not present. Without a safe place to save the remittances they receive or the ability to leverage them through a loan, launching a cottage industry is more difficult.

At the household level, another obstacle to investment is the lack of necessary technical capacity on the part of the recipients. In most rural areas the level of financial literacy is insufficient, and the recipients may not have the training needed to manage an enterprise larger than a home business. Nor is there technical assistance to help them carry out projects. Lacking such expertise or guidance from outsiders, the migrants tend to invest in businesses such as shops where competition is high and profit margins low. A survey by Wayne Cornelius conducted in three Mexican communities, for example, showed that nearly half of the businesses owned by migrants or former migrants continued to depend at least in part on a continued inflow of remittances to survive.

Finally, issues of collective action multiply when funds are pooled for investment in a business because the benefits of entrepreneurial activity are not shared equally by the members of the community. As one member of a Mexican HTA said, “because it’s a small town and we’re always jealous of each other... [i]f we launch a productive project, it has to be well organised, well planned, with discipline, with rules, which enable us to

---

14 Felipe H Lopez, Luis Escala-Rabadan, Raul Himnojosa-Ojeda, Migrant Associations, Remittances and Regional Development between Los Angeles and Oaxaca, Mexico, May 2001
17 Taylor, op. cit.
succeed.” Building consensus is an exceptionally time-consuming process, especially for a business.

In Mexico, one programme that has taken on this challenge is the Mi Communidad programme in the state of Guanajuato. This programme aims to attract migrants’ savings for investment in small-and-medium-sized enterprise projects, mainly textile maquiladoras. The state government does not provide matching funds (although doing so was part of its original plan), but instead acts as facilitator, helping with organisational issues, providing the projects’ technical design, developing the business plan and, in some cases, covering the cost of training and wages for a short period of time.

Not large manufacturing plants, the maquiladoras cost an average of US$100,000 each and employ around 40 people. In the first four years of the programme, US$1.2m was remitted from Guanajuato HTAs in the US for 12 maquiladoras in nine communities. Through this programme, 505 permanent jobs were created, a ratio of US$2,400 of remittances per job.18

It is exceptionally rare for a local government to play the role played by the Guanajuato state government. Lack of capacity and of firm views about the dividing line between the public and private spheres means few governments support migrants’ desire to invest their remittances in entrepreneurial activity. Most often, such activity is co-ordinated by NGOs.

An SSI project is easier to organise. In the case of maquiladoras or other “productive” projects, the collective remittances are more like investments and are made on a more business-like basis. They require a different kind of support and a different network for implementation.

A survey19 of Bangladeshi migrants identified the following reasons why they tend not to invest in an enterprise back home, despite the long tradition of micro-enterprise development in the country:

- Lack of promotional support in terms of information, advisory, training and other services relating to investment in new and potentially successful sectors
- Perceived higher risk compared to the purchase of land and construction of houses
- Lack of ideas about investment opportunities
- Lack of expertise in the remittance-receiving households for running businesses
- Investment environment not perceived to be conducive
- Preference for investing in the host country
- Unsuccessful past investments

---

18 “Migrants’ Capital for Small-Scale Infrastructure and Small Enterprise Development in Mexico”, World Bank, 2002
19 Tom de Bruyn and Umbareen Kuddus, “Dynamics of Remittance Utilization in Bangladesh”, January 2005
Chapter 4: Outlook

Given how quickly total remittance flows are growing and the potential development impact of collective remittances, it seems likely that everyone from migrant groups to their families back home, local and national governments and supra-national agencies will look more and more to leverage them in order to foster development. But as we have discovered in our research, fostering collective remittances and channelling them successfully into projects in the home country are still quite rare, primarily because they are so difficult to organise. What are the factors that make communal remittances work?

Based on our research, the key success factors are as follows:

**Organisation.** First and foremost, there needs to be a mechanism to overcome collective-action problems and bring the migrants together. Given their status as strangers in a strange land, migrants the world over naturally tend to seek out others with whom they share a common interest, be it religion, kinship, sports, profession or place of origin. However, such groups are often extremely loosely organised. Many have existed for only a short time, their members are usually temporary migrants, they lack organisational skills and their leaders are volunteers. Only rarely, and over a significant period of time, do such organisations coalesce, creating a formal leadership committee that organises and represents the members. Even when they do, such groups tend to focus first on meeting the needs of the migrants in the host country. Only rarely do they set their sights on issues back home. More common are cases in which an outside organisation, such as a local government, a charity, an NGO or a business group, provides the organisational impetus to foster collective action on behalf of its home communities. Even then the work is challenging, because the informal nature of the migrant groups makes interacting with them difficult and expensive.

**Capacity of the migrant groups.** Even if the migrants are organised and willing to pool funds to finance a project back home, success is far from guaranteed. The next stage is the identification of appropriate projects to support or the formulation of new projects. Migrant groups themselves rarely have this ability. They usually ask the government authorities at home to send them a list of projects in need of support or work through intermediary agencies. This approach can backfire, however, if the request for funds appears to be a demand from the outside, because the sense of ownership of the project within the migrant community is diminished. The most successful projects are completed when the migrants are actively, rather than passively, involved. Developing their capacity to manage this process themselves could encourage more activity.

**Co-ordination.** The migrant group or the intermediary organisation through which it is working must be able to co-ordinate with local actors at home. The preferences of the migrants, the plans of the intermediary agent and the needs back home do not necessarily coincide. Deciding on a common objective is a time-consuming process of negotiation, especially when the migrants are poorly organised and the recipient community is far away. Moreover, migrants often mistrust government officials because their personal
Building a future back home
Leveraging migrant worker remittances for development in Asia

experience of corruption and mismanagement is often one reason they left home. Building trust between the remitters and the recipients is required before co-ordination between the groups can begin.

Capacity of the recipients and their partners. The local actors at home must have the capacity to carry out the project that is being supported by the migrants. Even in cases in which the local government suggests a project, it often lacks the technical capacity to implement it. This is true not only during implementation but also during operations and maintenance. The visible impact can cause distrust among the remitting migrants and hamper further fund-raising efforts. Capacity issues are even more of a barrier when the migrants attempt to support entrepreneurial activity at home because the level of skill required is significantly higher. Even if well implemented, often the social and economic impact of entrepreneurial projects remains limited, because they rarely attain a sufficient scale to be sustainable. Instead, they constitute an isolated social experience.

Leadership. Ultimately, all of the issues listed above boil down to one thing: the need for leadership, both among the migrants and in the recipient community. This is, unfortunately, the most difficult thing to achieve. Leadership and managerial skills are everywhere in short supply. Capacity building takes time, even more so because the members of the migrant associations are likely to be volunteers and the representative on the recipient side is likely to be doing the work part-time since the flow of collective remittances to the town or village is infrequent. One reason why the programmes in Mexico have been relatively successful is the role taken by the government, not so much in providing funds (although of course that has helped) but in supporting capacity building in the recipient towns and among the migrants. In particular, local government officials say they are aware that many leaders and members of the HTAs are interested in becoming political and economic actors in their native towns, and they have actively fostered these people in order to encourage their leadership while they are abroad.

The role of third parties Governments are no doubt eager to help. However, any intervention in the area of remittances must be handled with care. Since most migrant groups are not development-oriented by nature and since remittances are private and voluntary, governments must be careful about the way they intervene. Any attempt to control the amount, restrict the destination, prescribe the use of, regulate the transfer of, require certain modes of transmission of, or tax remittances are only likely to drive them into already well-established informal channels where they are impossible to track. What can governments and multi-lateral agencies do if they are to encourage nascent efforts to spread the economic impact of remittances? Based on the successes analysed in our research, we can point to the following:

Examine how macroeconomic policies could magnify the impact of remittances. Education, transportation, communication and other infrastructure must be in place before any other type of investment can pay off. As such, collective remittances perhaps should be an incentive for governments to put infrastructure into heretofore peripheral and ignored areas. Many migrants’ advocates believe governments should consider remittances in their economic development plans.

Encourage institutionalisation. Almost everyone involved with programmes in Mexico, viewed as the most successful to date, and those who have analysed them conclude that a systematic
programme for attracting and leveraging remittances is a necessary vehicle for increasing the flows of community remittances and for channelling them to the appropriate uses. Such programmes should be made permanent so that they are not subject to the vagaries of electoral politics.

Focus on capacity building. Building capacity of the different players in this process of utilising remittances is what makes the most difference. While matching funds can indeed help to encourage more collective remittances, they do little good if the funds cannot be used properly. Migrants need the ability to manage their collective investment, especially if it is in an enterprise. A complete package of education, including financial literacy, mentoring, guidance in business development and identification of projects is needed. Access to financial services so that the recipients can leverage the collective remittances by themselves is also important.

One way to provide this, proposed by the International Organisation for Migrants, is to enlist skilled members of the diaspora to support the migrants and the local players on a temporary or “virtual” basis. One such programme is the Development in Africa (MIDA) programme, approved in 2001 by 24 African governments to foster diaspora involvement in development projects. A similar program is the UNDP’s “Transfer of Knowledge Through Expatriate Nationals” (TOKTEN) programme. It provides opportunities for qualified professionals in the diaspora to contribute their services to their home countries through short-term consultancies and organises funding to support these.

Organisation. The first capacity that must be built is the ability to effectively organise. While often migrants do form loose groups, they are not necessarily organised enough to carry out collective-remittance programmes. And sometimes, as in the case of female domestic helpers, they are too dispersed to act together at all. A way for them to communicate with each other, to break down their isolation and empower them, is needed.

To be successful, migrant associations must increase their membership, improve their fund-raising practices and, most importantly, develop a basic capacity for project management and promotion. This last task is critical, but also the most difficult to achieve. Capacity development is likely to require a combination of training, mentoring, and time to learn by doing. While all of these inputs are available, the chief bottleneck is that the leaders of migrant associations are usually part-timers or volunteers and thus may lack both the time and motivation to become professional managers of this process. Overcoming this obstacle is probably the single most important task facing organisations which wish to support collective remittances.

Similarly, their counterparts at home need assistance to improve their programmes and projects and enhance their promotion schemes for attracting more remittances towards investment purposes, making better use of the resources and opportunities available. In all these areas, carefully calibrated outside support can make an enormous difference. Concrete solutions to the organisational problem have yet to be found. Perhaps this is the area in which business can play a role. Most multinational companies today have corporate social responsibility policies in place and the more serious among these companies are eager to identify more meaningful ways in which to contribute to the countries in which they operate and to build future markets for themselves. Some companies are already supporting projects in rural areas. What is missing is a forum in which to match companies willing to provide expertise, and perhaps matching funding, with migrant organisations.
Conclusion

Collective remittances are now recognised as an important development by researchers and development economists. Nevertheless, as a relatively new phenomenon and one that is often carried out in an ad hoc way or through informal mechanisms, serious gaps remain in the understanding of this practice, especially in Asia. Additional data and knowledge sharing about the successes and challenges of such programmes are the next logical step in identifying how best to leverage migrant worker remittances for development.
Building a future back home
Leveraging migrant worker remittances for development in Asia
Building a future back home
Leveraging migrant worker remittances for development in Asia

An Economist Intelligence Unit white paper
Sponsored by Western Union