CHAPTER 1

REMITTANCES TO LEAST DEVELOPED COUNTRIES (LDCs)

Issues, Policies, Practices and Enhancing the Development Impact

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1. INTRODUCTION

1.1 Definition of Remittances

Three streams of monetary transfers flowing into countries are included in remittances and published annually by the IMF in its *Balance of Payments Statistics Yearbook.* These are workers' remittances, compensation of employees and migrant transfers. However the term "remittances" has come to include more than the above in the eyes of a number of States, institutions and experts. For IOM's purposes, migrant remittances are defined broadly as the monetary transfers that a migrant makes to the country of origin. In other words, financial flows associated with migration. Most of the time, remittances are personal cash transfers from a migrant worker or immigrant to a relative in the country of origin. They can also be funds invested, deposited or donated by the migrant to the country of origin. The definition could possibly be altered to include personal transfers and donations in kind. Some scholars go further to include transfers of skills and technology as well as "social remittances". The scope of this paper is limited to monetary transfers.

1.2. Scale and Importance

International remittances received by developing countries are estimated at around US$ 167 billion in 2005 and to have doubled in the last five years.[1] Migrant remittances constitute an important source of foreign exchange, enabling countries to acquire vital imports or pay off external debts. Remittances also play an important role in reducing poverty.[2] There is growing awareness of the potential that remittances have to contribute to economic development in migrant-sending countries at the local, regional and national level.

A USAID study on remittances in Armenia summarizes the view on the economic impact of migrant remittances:[3]

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Consensus views on the impact of migration and remittances on the sending countries have been subject to cycles of pessimism and optimism. In the early 1990s, for example, the general pessimistic view was that remittances do not promote growth but "exacerbate the dependency of sending communities by raising material expectations without providing a means of satisfying them, other than more migration. Individual families attain higher standards of living, but communities achieve little autonomous growth." Some analysts went so far as to advise governments and donors to discourage migration and remittances. There has been a sea change in recent years in the consensus view, and currently there is a great deal of excitement about the potential of remittance inflows to support growth and development. This is due partly to the fact that remittance flows to developing and transition countries have become so large, and partly because the theoretical understanding of remittances has changed.

Contemporary views on the economic benefits and costs of remittances to a receiving country can be summarized as:[4]

TABLE 1
POTENTIAL COSTS AND BENEFITS

Potential Benefits	Potential Costs
Are a stable source of foreign exchange that eases foreign exchange constraints and helps finance external deficits.	Ease pressure on governments to implement reforms and reduce external imbalances (moral hazard).
Are a potential source of savings and investment for capital formation and development.	Reduce savings of recipient families and thus negatively impact on growth and development (moral hazard).
Facilitate investment in children's education and human capital formation.	Reduce labour effort of recipient families and thus negatively impact on growth and development (moral hazard).
Raise the standard of living of recipients.	Migration leads to "brain drain" and negative impacts on the economy that are not fully compensated by remittance transfers.
Reduce income inequality.	Increase income inequality.
Reduce poverty.	

As Roberts (2004) mentions, in recent years a view has emerged that migration and remittances are the outcome of the decisions by families that are behaving optimally, given the opportunities and constraints they face. Simplistic views that remittances lead to "excessive" consumption, import dependency or "unproductive" investment in housing and land are no longer tenable. The potential costs of remittances are now viewed as largely deriving from moral hazard problems. Remittances could ease pressure on governments faced with large external deficits to engage in difficult structural reforms. They also could negatively impact labour effort and savings and investment of recipient households, even if the remittance sender wants the family to work hard or to save and invest.

The importance of migrants' remittances as a source of development finance is now widely recognized in various fora, including the G-8 Summit at Sea Island, Georgia, United States, in June 2004.

Remittances are an important financial inflow into many LDCs. Bangladesh is ranked among the top 20 remittance-recipient countries, and Haiti, Kiribati, Lesotho, Nepal and Yemen are in the top 20 as a share of GDP. For many others also, remittances constitute one of the main sources of external finance. (In some LDCs, remittances are also a significant outflow.)

TABLE 2
REMITTANCES TO LDCS

REMITTANCES IN 2003 (MILLIONS OF US DOLLARS)

COUNTRY (YEAR IF OTHER THAN 2003)	INFLOW	OUTFLOW	NET
Angola (2002)	0	223	-223
Bangladesh	3192	6	3186
Benin (2001)	83	10	73
Burkina Faso (2001)	50	44	6
Burundi	3	0	3
Cambodia	128	83	45
Cape Verde	92	1	91
Democratic Republic of the Congo	0	3	-3
Eritrea (2000)	3	1	2
Ethiopia	46	18	28
Guinea	111	46	65
Guinea-Bissau (2002)	17	5	12
Haiti	811	0	811
Lao People’s Democratic Republic (2001)	0	1	-1
Lesotho (2002)	184	21	163
Madagascar	16	8	8
Malawi (2002)	1	0	1
Maldives	3	55	-52
Mali (2002)	137	30	107
Mauritania (1998)	2	10	-8
Mozambique	70	29	41
Myanmar	78	22	56
Nepal	785	26	759
Rwanda (2002)	7	32	-25
Samoa (1999)	45	3	42
Sao Tome and Principe (2002)	1	0	1
Senegal (2002)	297	39	258
Sierra Leone	26	3	23
Solomon Islands (1999)	2	6	-4
Sudan	1223	1	1222
Togo (2002)	104	17	87
Uganda	295	264	31
United Republic of Tanzania (2002)	7	21	-14
Vanuatu	4	3	1
Yemen	1270	60	1210
Zambia (2000)	0	24	-24

Source: IMF Balance of Payments Statistics.
Remittances defined as workers remittances and compensation of employees.

1.3. Migration

Remittances are an outcome of migration and are the most direct link between migration and development. Over the last 35 years, the number of persons living outside their country of birth has more than doubled, and stands today at over 175 million people.[5] Worldwide, one in every 35 persons is a migrant. This trend of increasing international migration, and of migrants in absolute terms, can be expected to continue in the coming decades. Nevertheless, it should be borne in mind that during the same period the world's population also grew twofold and the proportion of migrants in the total population remains at about 3 per cent. Estimates put the number of migrant workers at just over 80 million and although there has been an increase, in 1998 migrant workers represented no more than 4.2 per cent of the industrialized countries' total work force.[6]

While the majority of international migrants originate from developing countries, it is not only a "South-North" phenomenon. Close to half of all reported migrants move from one developing country to another.[7]

Three key determining factors – the "pull" of changing demographics and labour market needs in high-income countries, the "push" of wage differentials and the pressure of crises in less developed countries, and established transcontinental networks based on family, culture and history – will continue to fuel international migration.

States regulate migration both from the perspective of attracting and managing inflows and, in some cases, promoting and managing outflows. The challenge for States is to manage migration for the benefit of countries of origin, destination and migrants. At the individual level, migration and remittances are usually the outcome of the decisions of families (including extended families) that are behaving optimally given the opportunities and constraints they face.

Migration from LDCs

Over 60 per cent of LDCs are located in **sub-Saharan Africa** (SSA). The ILO estimates that as of 2000 there were over 16 million migrants in Africa, of whom some 5.4 million were migrant workers, constituting 9 per cent of the world's migrants. In addition there are migrants from Africa in OECD countries and the Middle East. IOM's *World Migration Report* 2005 notes that the main trends in SSA migration include:[8]

Increasing feminization: The proportion of females among migrants has been increasing and account for nearly 47 per cent of the stock of migrants on the continent. More and more women are moving independently, not only as an accompanying spouse. They are taking low-skilled service jobs, and as nurses and hospital aides.

Internal migration and urbanization: Increasing urbanization is generating significant internal population movements. Available statistics indicate an urbanization rate of 3.5 per cent a year, the highest among continents.

Refugees and internally displaced persons: Conflicts, human rights violations and other crises, together with poor governance, continue to pose pressing problems for many African states and often result in forced migration. The major sources of refugees and IDPs have shifted over time. In recent years the shift has been to Central and West Africa (and western Sudan).

Regional labour migration: Traditionally labour migration in SSA has been directed to regional economic centres and within regional configurations. Regional economic communities such as ECOWAS, EAC and SADC have made some progress in facilitating regional labour mobility.

International migration: Historical, cultural and linguistic ties have prompted flows of skilled and unskilled migrants between African states and the former colonial powers in Europe. Two important trends that have emerged are the international recruitment of health workers and, in a different vein, irregular migration flows via the Maghreb to Europe.

LDCs in **South Asia** have significant labour migration flows to the Arab Gulf states and, to a lesser extent, Malaysia. In Afghanistan, large displaced populations and economic migrants reside in neighbouring states.

Haiti, in the **western hemisphere**, is a major source country for labour migration in the Caribbean.

LDCs are active participants in internal, regional and intercontinental migration and will continue to be so at least in the medium term, given that the three determining factors underlying migration are present. As migration drives remittances, remittances will continue to play an important role as a source of finance in LDCs. **The question that arises, particularly for LDCs, is how can the development impact of remittances be enhanced?**

This paper will examine three aspects of remittance flows to LDCs – data collection, remittance services, and development impact. In doing so, the paper will draw upon responses to a questionnaire on remittances. The questionnaire, administered specifically for the paper and a compendium on remittances in LDCs, was responded to by policymakers in 12 countries. The paper will look particularly at three LDCs on the basis of country papers/notes that have been prepared (Bangladesh, Haiti and Uganda). The paper will also refer to remittance studies pertaining to LDCs as well as effective practices developed in other developing countries.

2. DATA COLLECTION ON REMITTANCES

The use of remittances as a resource for development in migrant-sending countries requires better information and data on remittance flows, usage patterns, transfer mechanisms, good practices and attitudes and preferences regarding savings and investment schemes. Official records on remittances usually underestimate remittance flows, although such records can also inflate it by including non-remittance flows. In LDCs under-reporting is more common given the lack of remittance data collection and the importance of informal remittance channels. A study estimated that, in Sudan, informal remittances accounted for 85 per cent of total remittances.[9]

Of the 12 LDCs surveyed, eight reported that remittance data were currently being collected by the Central Bank or another government institution (Table 3). The data being collected pertains to the volume of remittances flowing through formal channels and, in some cases, the remittance costs, the remittance channels and methods and the countries of origin. In general, it can be stated that data collection on remittances in LDCs is weak. In sub-Saharan Africa basic remittance data on flows is lacking for about two-thirds of the countries.[10] The same holds true for Haiti and Afghanistan, both major receivers. In general, two problems with remittance data are common to LDCs as well. First, overall relatively weak financial systems and a high proportion of intra-regional migration suggest that informal remittances are likely to be a substantial share of total remittances in many LDCs. However, data and estimates on informal flows are lacking. Second is the poor quality of data, faulty data collection or even misrepresentation, whereby non-remittance payments are recorded as remittances.

Nevertheless, the information gap is narrowing. Countries like Bangladesh and Uganda have taken steps to improve data collection on remittance flows. The enacting of the Foreign Exchange Act (2004) in Uganda requires all persons licensed to deal in transfers to submit returns. The Bangladesh Central Bank has been collecting data on remittances since 1972 and has recently moved to collecting weekly reports from commercial banks on remittance flows.[11] Haiti reports that it is in the process of introducing a remittance tracking system. Moreover estimates and other data on remittance channels, costs and use are being derived from household surveys and polls conducted by international organizations and NGOs. Therefore, while currently no data are being collected by the Haitian government on remittances, Fonkoze, a microfinance organization, and the Inter-American Development Bank (IDB) have collected data on remittances to Haiti.

TABLE 3
OFFICIAL REMITTANCE DATA COLLECTION

Country	Does the Central Bank or another government institution currently collect remittance data?
Uganda	Yes
Haiti	No
Cambodia	Yes
Bangladesh	Yes
Benin	Yes
Mali	No
Afghanistan	No
Burkina Faso	No
Burundi	Yes
Ethiopia	Yes
Lesotho	Yes
Tanzania	Yes

3. REMITTANCE SERVICES (CHANNELS)

Reducing remittance costs and increasing access to cost-effective, fast and safe remittance services, not only benefits migrants, but also potentially increases the funds remitted and made available to recipients in LDCs.

Remittances are sent in various ways – through banks, money transfer companies, by hand or through a third party (e.g. *Hawala* transactions) depending on a number of factors. The remittance industry consists of formal and informal transfer agents. At the formal end are global money transfer organizations (MTOs) such as Western Union and Money Gram, as well as smaller MTOs that serve specific geographical markets such as Dahabshil for Somalia, and global and national banks. At the informal end are unregistered MTOs such as *Hawala* dealers, individuals, friends and relatives, bus drivers, traders and the like. The simplicity of the money transfer operation lends itself to the many unregistered actors who usually provide a service at a lower cost than the well-known MTOs.

It is generally recognized that remittance fees charged by the global MTOs are high, regressive (higher for smaller amounts) and non-transparent. Fees may be as high as 20 per cent of the principal, depending on the remittance amount, channel, destination and origin country and service.[12] The average price was reported to be around 12 per cent of the principal in 2004. Currency conversion charges are even less transparent, ranging from no charge in dollarized economies, to six per cent or more in some countries.[13] Prices have declined in some high-volume corridors, but still remain very high in low-volume corridors, many of which concern LDCs. The leading players in the transfer market earn large profits while the transaction cost for migrants, although falling, remains relatively high. This situation is unwarranted when one considers the fact that usually the money transfer operation is a simple one and with low risk (see Figure 1 in Annex). Where there is sufficient volume or competition, there is no reason why remittance channels should not be low-cost, efficient and accessible. Research by the World Bank indicates that in regard to major MTOs, the cost of a remittance transaction appears to be far lower than the price.[14]

Of the 12 LDCs surveyed, global MTOs were mentioned as the main money transfer channel in most African countries and Haiti, while banks were more important in Asia (Bangladesh and Cambodia). Banks were active in some African countries as well. Informal mechanisms were reported in ten countries.

TABLE 4
MAIN MONEY TRANSFER CHANNELS

	Remittance Transfer Channels	
	Formal	Informal
Uganda	MTOs (Money gram and Western Union), banking institutions, Forex bureaux	Forex bureaux, trading companies and personal acquaintances
Haiti	MTOs (Western Union)	Personal contacts and third parties
Cambodia	Banks	Tourists/visitors, informal remittance companies
Bangladesh	Banks, Post Office	*Hundi*
Benin	Post Office, societies, banks	Personal, informal transfer societies
Mali	Banks, MTOs (Western Union), French banks	Fax system operated by local merchants and businesses both in Mali and in migrant host countries, hand carried
Afghanistan	Money transfer companies (Western Union), Swif	*Hawala* System
Burundi	Money transfer companies (Money Gram, La Mutec and Western Union)	
Ethiopia	Banks, money transfer companies (Western Union, Money Gram)	*Hawala*, informal urban transfer systems, cash transfers through individuals travelling to Ethiopia
Lesotho	Banks, recruitment agencies	
Tanzania	Banks, money transfer companies (Western Union, Money Gram)	Friends and relatives travelling abroad

3.1. Informal Systems

Informal fund transfer systems (IFTs) such as *Hawala* (see Figure 2 in Annex) can have legitimate and illegitimate uses. In some countries they are legal and labour migrants find the system quick, cost-effective, convenient, versatile and anonymous. However, IFTs can have illegitimate uses as well, including circumventing capital and exchange controls, tax evasion, smuggling, money laundering and terrorist financing.[15] Typically, IFTs thrive in jurisdictions where the formal sector is weak or where significant market distortions exist. Fees charged are as low as 1-2 per cent of the remittance amount with a delivery time of 24 hours.[16]

Hand carrying through transport operators, couriers, friends and relatives is also common in some regions, but this is vulnerable to leakage during border-crossings as well as theft. In Haiti a large number of remitters hand carry their money home, either themselves or send it with a trusted friend or relative. This is the most common transfer method for Haitians living and working in the Dominican Republic (DR). According to the report, *Encuesta Sobre Inmigrantes Haitianos en la RD*, less than 10 per cent of Haitian migrants in the DR use remittance transfer companies and about 12 per cent use *choferes de confianza*. All the rest, close to 80 per cent, transfer their money home by hand.[17]

Exchange rate overvaluation, restrictive foreign exchange practices, the lack of efficient, adequate and reliable banking facilities and low relative rates of return on financial assets, as well as high transfer costs and low access to the formal sector, help explain unrecorded remittances. Whether incentives can significantly divert remittances to formal channels when the fundamentals remain distorted and institutional deficiencies unrectified, is doubtful. In this context, most of the 12 LDCs surveyed reported that the national currency's exchange rate was not overvalued (with the exception of Cambodia). However, a number of LDCs do tax income from remittances (Haiti, Mali, Burkina Faso and Burundi), do not allow repatriable foreign currency accounts to be held by nationals (Mali, Burkina Faso and Ethiopia) and do not permit unrestricted access to foreign exchange (Haiti, Cambodia, Mali, Ethiopia and Tanzania). According to Bangladesh Bank officials, following the liberalization of foreign exchange regulations in 2000-02, coupled with measures to drastically improve delivery time via national banks, flows through hawala (called *hundi* in Bangladesh) transactions significantly dropped.[18] Bangladesh reported a 22.43 per cent increase in formal remittances in the 2002-2003 fiscal year.[19]

3.2. Money Transfer Operators

As indicated earlier, global MTOs are the main formal remittance channels used in the African countries surveyed and Haiti. The main advantages perceived by users are access, speed, reliability and simple procedures. Less costly alternatives have developed, but are not as widely available. MTOs, like Western Union, have good brand recognition (and have large marketing budgets). They are, however, relatively expensive to use as already noted earlier. Smaller and specialized MTOs (like Dahabshil) are less costly for migrants, with a typical fee of around 5 per cent.[20]

3.3. Banks, Credit Unions and Microfinance Institutions (MFIs)

Account-based services for money transfers are usually less costly. A tabulation by the World Bank on the approximate cost of remitting US$ 200 by major MTOs, banks, other MTOs and *Hawala*, found banks to be more competitive than the major MTOs in all corridors where comparative data had been collected.[21]

Most of the LDCs surveyed cited banks as one of the top three formal mechanisms for money transfers, with banks ranking higher than MTOs in Bangladesh, Cambodia, Lesotho, Tanzania and Mali. MFIs have emerged as a player in some countries. The most common formal remittance channel for Haitian remitters is through remittance companies, such as Western Union. Bank transfer is the second most popular formal transfer method and, in some cases, these transfers are linked to local microfinance organizations, such as Fonkoze.

According to the Haitian government, formal transfer companies charge transfer fees of approximately 8-10 per cent. In a comparative case, the Haitian microfinance organization Fonkoze, which works in partnership with a US-based bank, offers simpler and more affordable fees.[22] Customers are charged a flat US$ 10 fee for transfers, which range in size from US$ 10 to US$ 1,000, and slightly higher fees for larger transfers (see table below). Transfers made to Haitian-based churches or NGOs are charged a US$ 10 fee, regardless of the transfer amount.

TABLE 5
TRANSFER FEES CHARGED BY FONKOZE

Fonkoze Remittance Transfer Fees	
Transfer Amount (US$)	Transfer Fee (US$)
10 –1,000	10
1,001 – 2,000	15
2,001 – 3,000	20
3,001 – 4,000	25
4,001 – 5,000	30
5,001 and above	50

In 2004, US$ 7.3 million in remittances were transferred through this alternative network. Fonkoze is the largest microfinance institution in Haiti offering a full range of financial services to the rural-based poor. To transfer money, a remittance sender sends money to Fonkoze's partner bank in New Jersey. The money is then transferred to a Fonkoze location in Haiti within 24 hours. All recipients have a savings account with Fonkoze and receive their remittance in that account. Other MFIs engaged in transfers include the National Microfinance Bank of Tanzania, Uganda Microfinance Union (UMU) and La Mutec in Burundi.

IRNet, a credit union service, is also an innovative alternative to MTOs and charges a flat rate of US$ 6.50 per remittance. However, the sender has to be a member of the credit union. LDC members where the credit union is active include Malawi and Rwanda. Associate members include Bangladesh, Gambia, Nepal, Samoa, Senegal, Uganda and Tanzania.

Apart from being less expensive than MTOs, banks have the advantage of complementing remittance services with other financial products.

3.4. Card-based Innovations

Card-based innovations are cost-effective as well. Visa offers four products for money transfer and has tie-ups with banks, MFIs and retail outlets. None of the LDCs surveyed however mentioned cards as among the top three transfer mechanism, which is not surprising, given that it is a relatively new mechanism (with scope for growth).

3.5. Other

Financial service providers and other organizations that cater to the poor and migrants can forge creative institutional partnerships to provide remittance services. Alliances with banks, credit unions, postal networks, international MTOs and retail outlets can allow them to leverage their strengths (proximity to clients) and to overcome their weaknesses (limited transfer experience, restrictions on foreign exchange dealings and access to the payment system).[23]

One way is the bundling of money transfers. In India, the NGO Adhikar is piloting a domestic money transfer service. Adhikar centralizes the transfer and distribution of small transfers from migrants and routes them through an account in a partner bank. This brings down the transaction cost and generates a fee for the NGO.

The postal services with their wide network (and, in some cases, already an actor in domestic remittances) are sought as a partner by MTOs. In the LDCs surveyed, postal services were mentioned as among the top three formal channels in Bangladesh and Benin.

3.6. Government Initiatives

Over the years governments in labour sending countries have introduced a number of policy measures to influence the flow of remittances (and increase flows through formal channels). As remittances are private transfers, these policy measures have largely been in the form of incentives, but in some cases mandatory.

Mandatory Remittance Requirements

As a condition for issuing exit permits, the Korean government in the 1980s stipulated that at least 80 per cent of the earnings of migrant workers be remitted through the Korean banking system. Available estimates indicate that this was met.[24] Similar attempts in other Asian countries failed due to implementation difficulties.

The effectiveness of the Korean policy is closely related to the unique features of the Korean labour migration process, best described as a “package” approach.

The Deferred Pay Scheme in Lesotho (and Mozambique) was set up in 1974 to “ensure that a higher percentage of money paid to Basotho mineworkers was invested/utilized in the domestic economy” and to increase savings among mineworkers. It was stipulated that 60 per cent of the basic wage should be deposited at Lesotho bank with the exception of the first 30 days. This was subsequently reduced to 30 per cent of the wage in 1990.

Mining companies transfer the required 30 per cent of the wage bill to a common account at the Lesotho Bank. Employees may make up to two emergency withdrawals. At the end of their contract, miners receive a deferred pay certificate from the mine. TEBA gives them an interest certificate. Both are encashed at Lesotho Bank.

Most miners in Southern Africa are recruited by the Employment Bureau of Africa (TEBA), a private non-profit organization. Miners recruited through TEBA receive their wages on an individual savings account with TEBA Cash, a private commercial bank in South Africa. Most miners remit part of their wages voluntarily to TEBA offices in Lesotho, on the payment of a commission. Relatives in Lesotho can also make a request for a remittance, which, subject to the consent of the miner, is transferred.

As in Korea, it is a "package" approach and has worked well in directing remittances to the country of origin via formal channels. Between 1989 and 1993, 75 per cent of total miner income was remitted.[25] In 2002, Lesotho ranked second in terms of remittances as a percentage of GDP (28.6 per cent).

Financial Products to Attract Remittances

Currently, India is the world's largest remittance recipient country. Non-resident Indian (NRI) deposits have been one of the main sources for attracting savings of Indian migrants. Various NRI deposit schemes have been in place since 1970. A series of incentives were provided, including: higher interest rates, exchange rate guarantees, repatriation facilities and exemption from wealth and income tax on the principal and interest. The incentives were provided mainly with a view to augment foreign exchange reserves and, with this being achieved, many of the incentives have been withdrawn since the 1990s.[26] A limitation has been that these accounts have proved attractive largely to migrants belonging to the professional and skilled categories. One of the most important initiatives in recent years to attract the savings of Indian migrants has been through floating specialized bonds. Two such bonds, Resurgent India Bonds (1998) and the Indian Millennium Deposits (2000) raised US$ 4.2 billion and 5.51 billion, respectively.[27]

Bangladesh is also relatively advanced in providing financial instruments to attract remittances. Most of these were introduced after 2001.

Non-resident Foreign Currency Deposit (NFCD)

Migrants can have a **Non-resident Foreign Currency Deposit** (NFCD) account in any branch of Bangladeshi and foreign banks that have an authorized dealership licence. The account can be opened for periods of one month, three months, six months or one year in US dollars, pounds sterling (GBP), Canadian dollars (CAD), Japanese yen (Y) or euros. The minimum balance required is US$ 1,000 or GBP 500 or their equivalent in other currencies. Accounts are renewable and can be maintained for an indefinite period, even after the return of the migrant worker. The migrant is also eligible to open an NFCD account with his or her savings within six months of returning to Bangladesh. Interest is calculated on the value in euros and is tax-free. The capital and interest of NFCD accounts can also be transferred into Bangladeshi taka at the current exchange rate. There is also provision for withdrawal of the capital before the expiry of the specified period, but in that case the account holder does not receive the interest. The Bangladesh Bank (BB) also allows investment of NFCD funds in remunerative business projects in order to provide competitive interest rates to account holders.

NFCD forms are available from Bangladeshi missions abroad. In order to make the schemes popular among migrants, BB has gradually simplified the formalities for these accounts by requesting only a photocopy of the migrant's passport, a signature, or a certification from a notary public to open such an account. The Bangladesh Bank maintains regular contacts with foreign missions to promote the use of these procedures.

Wage Earners' Development Bond

Remittances from Bangladeshi migrants abroad can be invested in Bangladeshi currency in five-year **Wage Earners' Development Bonds**. These bonds are available in different denominations: Taka 1,000, 5,000, 10,000, 25,000 and 50,000. They are issued for specific periods and earn an annual interest of 12 per cent (as of 28 November 2000). The profits can be invested in Bangladesh. If a bondholder wants to cash the bonds before expiry of the term, the migrant is entitled to interest at a reduced rate. The capital of the investment is freely transferable abroad in foreign currency and the interest is tax-free. These bonds are available from National Savings Bureau offices, branches of Bangladeshi banks abroad and Bangladesh missions abroad.

Non-resident Investor's Taka Account (NITA)

A migrant can open a **Non-resident Investor's Taka Account** (NITA) using money remitted from abroad for investment in shares and securities on the Bangladesh capital market. Such an account may be opened in any dealer branch of an authorized bank. The current balance of NITA can be transferred in foreign currency to any country at any time. The balance of the NITA can be used to buy shares and securities through the stock exchange, and money earned as dividend and from the sale of shares and securities may be saved in a NITA. Capital and profits are exempt of tax and the bank directing the account can act as nominee.

US Dollar Investment Bond, 2002

The MoF's IRD introduced the US Dollar Investment Bond 2002 on 16 October 2002 as an investment instrument in foreign currency for Bangladeshi emigrants (GoB, 2002) under the following conditions:

- **Eligibility for the bond**: US dollar bonds issued in the name of a holder of a non-resident account against remittances from abroad to the account.
- **Maturity, denomination, interest, tax exemption:** US Dollar Investment Bond(s) mature after three years from date of issue. The bondholder is entitled to draw interest half-yearly at a fixed rate of 6.5 per cent per annum in US dollars. However, the bondholder may surrender bonds before maturity and be reimbursed in cash at the paying office, with interest as follows:

i) No interest during the first year of issue;
ii) 5.5 per cent interest between one year and two years;
iii) 6 per cent interest between two and three years;
iv) 6.5 per cent interest after three years.

Bonds are issued in denominations of US$ 500, US$ 1,000, US$ 5,000, US$ 10,000 and US$ 50,000 and in such other denominations as the government may decide. Principal and interest is payable in US dollars to the holder or a nominee. Money invested in bonds is exempt from tax payable under the Income Tax Act, 1922.

- **Nominee after death:** On the death of the bondholder, the nominee can draw the principal and interest in US dollars, if non-resident. For a resident nominee, the principal and interest are payable in Bangladesh currency.
- **Method of payment** for the bond: Payment for purchasing bonds can be made either by cheque or by draft in foreign currency against inward foreign exchange remittance, or by funds held in the non-resident foreign currency account of the applicant.
- **Additional benefit for substantial investments**: If a purchaser buys bonds totalling US$ 1 million or more, he or she is considered a commercially important person (CIP) and is entitled to all the appropriate facilities. CIP facilities cease if the purchaser's investment falls below US$ 1 million due to subsequent encashment and on failure to

retain the limit of US$ 1 million through further investment in the bond within three months of encashment.

US Dollar Premium Bond, 2002

The US Dollar Premium Bond 2002 is the most recent foreign currency investment instrument introduced for Bangladeshi emigrants by the MoF's IRD. Announced in October 2002, it was available from November 2002 (GoB, 2002).

- **Maturity, denomination, interest**: US Dollar Premium Bonds mature three years from the date of issue. The bondholder is entitled to draw interest half-yearly at a fixed rate of 7.5 per cent per annum in Bangladesh currency at the current US$/BDT rate. However, the bondholder may surrender the bonds before maturity for cash at the paying office with interest as follows:

i) No interest during the first year of issue;
ii) 6.5 per cent interest between one year and two years;
iii) 7 per cent interest between two and three years;
iv) 7.5 per cent interest after completion of three years.

Bonds are issued in denominations of US$ 500, US$ 1,000, US$ 5,000, US$ 10,000 and US$ 50,000, and in such other denominations as the government may decide. The principal amount is paid in US dollars to the holder or a non-resident nominee, as applicable. The principal due to the holder or nominee may be paid in Bangladesh currency, if desired, but interest is only paid in Bangladesh currency.

- **Eligibility:** Bonds are issued to a "non-resident account holder", i.e. a Bangladeshi national with a foreign currency account residing abroad, or a person of Bangladeshi origin (PBO) who has acquired foreign nationality and resides abroad.
- **Issuing authority:** The bond's "issuing authority" is the BB, its branches or authorized dealers in Bangladesh and authorized offices abroad and any other authority determined by the government. A foreign correspondent of an authorized dealer bank may also act as an issuing office.

Source: Siddiqui (2005)

Other than Bangladesh, the only LDC that reported providing financial instruments to attract investments from remittances was Uganda. Treasury bills and bonds are offered to non-residents for investment purposes.

Incentives

South Asian countries like Bangladesh, India and Pakistan have also put in place additional incentives to attract remittances. In 2002, as an outcome of a series of inter-ministerial meetings, in Bangladesh the following incentives were provided to emigrants:[28] tax exemption for money remitted through official channels; no longer the need to furnish a tax identification number (TIN) certificate on purchase of immovable properties in Bangladesh; and during the period of 1 July 2002 to 20 June 2006, ability to invest any amount of money in commercial and industrial sectors without enquiries into the source of funds by the government. Further incentives were introduced for emigrants interested to set up agro-based industries in Bangladesh.

A quota has been set for emigrant Bangladeshis (EBs) in government housing projects and 1,000 sites have been reserved for them. Opportunities have also been created for EBs to avail themselves of low-cost housing. Emigrants enjoy preference if they purchase in US dollars. Special incentives are also in place for emigrants who are interested in investing in the communication and transport sectors.

The Privatisation Commission has also offered cheaper rates for EBs when purchasing denationalized industries. Incentives offered are:

(i) A 40 per cent reduction in the price for emigrants if they pay the full price within 30 days.
(ii) A 20 per cent reduction if 75 per cent of the total price is paid within 30 days.
(iii) An extra 5 per cent reduction in the price is offered if payment is made in foreign currency.

The government has also decided to honour Important Non-resident Bangladeshis (INRB) investing in the country. A committee has been formed to frame a policy. Emigrants who will invest the equivalent of US$ 500,000 in foreign currency and who remit the equivalent of US$ 750,000 will be honoured as INRBs.

In Pakistan a series of incentives was announced in 2001, reflecting the importance that the government placed on remittances as a tool for economic development. Linked to a minimum remitted amount of US$ 2,500 to 10,000, overseas Pakistanis were given privileged access to higher education, public housing and share offerings as well as free renewal of passports and import duty exemption (for US$ 700 per year).

Counselling and Advice

As part of pre-departure orientation given to migrant workers, state overseas employment entities in the Philippines and Sri Lanka advise workers on how to remit their earnings. LDCs which provide information to nationals abroad on remittance channels and costs, mainly through a website, national banks or embassies include Uganda, Bangladesh, Mali, Burkina Faso, Ethiopia and Tanzania.

It is clear, however, that much more can be done in the area of providing information to migrants about the real costs of remitting and the various transfer options available in the host countries.

Simplifying Transfer Procedures and Extending Financial Networks

National banks in Sri Lanka, Bangladesh and India have opened branches in migrant receiving areas and established correspondent accounts with international banks in order to extend their financial services network. (MTOs have extended their domestic network through partnerships with local agents and the postal service.) The streamlining of transfer procedures (in terms of both simplification and speed) has led to a marked increase in remittances through formal channels in Bangladesh.

Relatively longer transaction time in delivering remittances was identified as one of the major reasons for choosing unofficial channels.[29] In 2001, the Ministry of Finance (MOF) issued a circular to all nationalized commercial banks (NCBs) instructing that remittances must reach the clients within three days of receipt of the draft/TT. It was communicated that stern action was to be taken against bank functionaries if remittances remain unprocessed for more than the stipulated period. Accordingly, the circular was followed by concrete actions. A few functionaries of NCBs were penalized ranging from receiving a show-cause notice or transfer, to temporary suspension for their lapses.

Both NCBs and private commercial banks (PCBs) were encouraged by BB to switch to the Electronic Fund Transfer (EFT) system. This has reduced time as well as bureaucratic procedures for remittance transfer. One of the major problems of less-educated migrants was to accurately fill in the draft and the fees in posting the draft. However, with the introduction of EFT on a greater scale these problems have been addressed.

In the past, delays in remittance delivery were also due to withholding of remittances in the international "nostro account" of the NCBs for certain periods, ranging from between a week to a fortnight. This was to earn undue interest on the remittances. The BB instructed all NCBs for daily reconciliation on the remittances received. It is now mandatory to recover remittances on a daily basis. After such instructions and concomitant monitoring, it was found, for example, that US$ 25 million were received by a branch of a NCB from Saudi Arabia in a month. Once delays in nostro accounts were settled, lead-times in remittance transfer were substantially reduced.

BB has recently permitted the opening of new exchange houses in locations with large concentrations of Bangladeshi migrants. It has also minimized the timeframe in scrutinizing applications for developing correspondent relationships between foreign banks and exchange houses with NCBs and PCBs. Currently, 267 drawing arrangements are in operation with 96 exchange houses in different parts of the world. Besides these, PCBs are also receiving permission to open branches in new areas (Sonali Bank et al, 2002).

Source: Siddiqui, 2005

Access to Services for Irregular Migrants

With the backing of the US and Mexican governments, Mexican Consular Identification Cards (CICs) issued in the US are becoming an accepted form of identification for opening US bank accounts – thus introducing irregular migrants to the formal financial sector. Mexican officials have successfully negotiated with banks and transfer agencies in the US so that from December 2001, some 15 banking institutions and their branches allow migrants from Mexico, whether legal or illegal, to open bank accounts on presentation of identity cards provided by the Mexican consulates. Migrants' relatives at home can then use the ATM cards to withdraw funds for about US$ 3 per transaction – far less than the usual money transfer fee.[30]

Sound Macro-economic Policies and Institutional Framework

It is recognized by many experts in the field that the most important measure governments can take to stimulate remittance flows and realize its development potential is to create a sound policy environment that minimizes macro-economic uncertainty and ensures the transparency and standard regulation of financial institutions. Governments need to pursue sound monetary policies, including correctly valued exchange rates, ensuring a positive real interest rate and liberalize foreign trade. But this is not enough. Governments also need to establish an institutional framework for the safe and low-cost transmission of remittances and the competition and proper operation of all participants. In tandem with incentives, the most important step governments can take to stimulate remittance flows and realize their development potential is to create a sound policy and legal environment that promotes capital inflows, including remittances.

Bangladesh is a good example of an LDC that since the early 2000s has undertaken various proactive measures for encouraging the flow of remittance through official channels. When the seventh parliamentary government began its tenure, the foreign exchange reserve of the country was as low as US$ 100 million. Finding the terms of international credit difficult to accept, the government identified remittances as a potential source for increasing the foreign exchange reserve. Ever since, the government has been undertaking concrete reform measures to increase the inflow of remittances through official channels. The reform measures can be divided into four broad heads: macro-economic reforms, streamlining the transfer process, developing lucrative investment instruments, framing legislation to curb money laundering, and encouraging entry of non-traditional players into the remittance transfer market.[31]

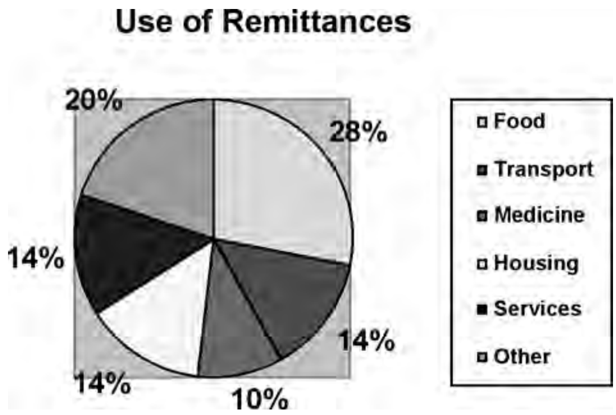
4. ENHANCING THE DEVELOPMENT IMPACT OF REMITTANCES

As mentioned in section one, in recent years a view has emerged that migration and remittances are outcomes of the decisions of individuals and families behaving optimally given the opportunities and constraints they face. Oversimplified views that remittances lead to “excessive” consumption, import dependency or “unproductive” investment in housing and land are no longer tenable. The potential costs of remittances are now viewed as largely deriving from “moral hazard” problems.

Migrant remittances constitute an important source of foreign exchange, enabling countries to acquire vital imports or pay off external debts. Remittances also play an important role in reducing poverty.[32] There is growing awareness of the potential that remittances have to contribute to economic development in migrant-sending countries at the local, regional and national levels. Given that remittances are private funds, they should not be viewed as a substitute for official development assistance.

5. USE OF REMITTANCES

An IOM survey (2004) found that in Guatemala 53 per cent of remittances received were allocated to household expenditure and basic items such as food and clothing. A further 11 per cent were directed towards education and health. As much as 36 per cent were directed towards savings, economic activities and the purchase of assets (including housing). A recent study of remittance flows to Haiti from the Dominican Republic found a major share being allocated to basic needs.



Source – “Encuesta Sobre Inmigrantes Haitianos en la Republica Dominicana”

In countries of the former USSR (Tajikistan, Moldova, Armenia) studies have found that the amount allocated to savings and investment was small. In Tajikistan (IOM, 2003), labour migration and remittances have generally not contributed to individual accumulation of wealth nor accelerated the pace of SME development. Nevertheless, as a survival strategy, labour migration has been a crucial stabilizing factor to offset the effects of the economic crisis. (IOM and UNDP have initiated a pilot project to take things further. Working with community organizations, households receiving remittances are identified, training in business planning and management provided and loans to match investment from remittances extended).

Where the investment climate is safe and returns attractive, migrants have invested in financial instruments for development (India, Development Bonds). This has also resulted in philanthropic contributions (e.g. Latino Hometown Associations in the United States, Malian and Senegalese diaspora).

Given that remittances are private funds, most experts believe that measures to enhance their development impact should only be in the form of incentives. As argued in sections two and three, the necessary steps to enhance the development impact of remittances is, first, to improve data collection and the knowledge base on remittances; second, promote measures to make the transfer process less costly, more accessible and safe and third, more direct measures should be taken to enhance the development impact of remittances at the micro and macro level in LDCs.

a) Financial instruments to attract remittances, investment and capital

As mentioned in section two, Non-resident Indian (NRI) deposits have been one of the main sources to attract savings by Indian migrants. One of the most important initiatives in recent years to attract the savings of Indian migrants for development purposes has been the floating of specialized bonds. Two such bonds, Resurgent India Bonds (1998) and the Indian Millennium Deposits (2000) raised US$ 4.2 billion and 5.51 billion, respectively.

Bangladesh has also utilized various financial instruments (described in section two) to attract capital from its migrants. Uganda encourages migrants to invest in treasury bills and bonds and provides information to its diaspora on investment opportunities and partnerships in development initiatives.

Establishing remittance-backed bonds through securitization of future remittance flows: Remittance-backed bonds enable countries to raise funds at lower interest rates on international bond markets. They have been issued in several countries: Brazil, El Salvador, Mexico, Panama and Turkey. This initiative might be premature for countries where financial institutions do not have sufficient experience with issuing bonds on international markets. The idea of remittance-backed bonds is very intriguing, but it needs to be evaluated cautiously.[33]

b) Business development and investment schemes for migrants

Governments in Asian labour-sending countries have instituted some special programmes to both assist with reintegration of returning migrant workers, and stimulate investment and business development. Such initiatives have basically taken four forms:

- Facilities for importing capital goods and raw material
- Business counselling and training

- Entrepreneurship development
- Access to loans

IOM and UNDP are implementing a project in Tajikistan at the grass-roots level that matches investment from remittances in business start-ups or by extending business training, credit and advice.

c) Banking remittances

Financial intermediaries can attract migrant deposits and channel them as loans to existing small and micro-businesses. In other words, labour-sending LDCs might wish to induce microfinance institutions to attract remittances. Banks, credit unions and regulated MFIs are in a good position to leverage the economic impact of remittances. Remittances can also be directed to leveraging housing loans. In Guatemala the government and IOM are developing an innovative project to finance low-cost housing for migrant families from remittances and a housing subsidy. Mali has reported having a matching fund programme for housing.

The formal remittance transfer market to Haiti is dominated primarily by Western Union, Money Express and CAM. Although these companies charge high fees and have a poor rural network, they remain popular, most likely because remittance senders have confidence that their money will arrive safely. Apart from formal remittance transfer companies, a growing number of North America based remittance senders are choosing to use the transfer services of Fonkoze, Haiti's Alternative Bank for the Organized Poor. In 2004, remittances worth US$ 7.3 million were transferred through this alternative network. Fonkoze is the largest microfinance institution in Haiti offering a full range of financial services to the rural poor. Established in 1994, Fonkoze currently has over 64,000 savers, over 26,000 active borrowers (99 per cent of whom are women) and 24 branch offices spread throughout every department of Haiti. The services offered include: (1) solidarity group and individual loans that are used to start or expand small business, (2) savings products geared towards meeting the needs of the poor, (3) currency exchange services that allow Haitians to change US dollars into Haitian gourds at a preferential rate, (4) money transfer services that allow Haitians living overseas the opportunity to transfer funds to Haiti at a very low cost, (5) literacy and business skills training. To transfer money, a remittance sender simply sends money to Fonkoze's partner bank in New Jersey. The money is then transferred to a Fonkoze location in Haiti within 24 hours. All recipients have a savings account with Fonkoze and receive their remittance in that account. Fonkoze offers several unique benefits to their clients, including low fees, services in rural areas, direct deposit into a savings account, the option for senders to attach special rules and the choice for receivers to access funds in US dollars or in local currency.[34]

On a similar note, USAID is currently working with ACCION International's microfinance organization, SOGESOL, in Haiti, providing technical assistance to help analyse the organization's potential to handle remittances, draft business plans, acquire the necessary technological infrastructure and develop new financial products, technologies and services for their entrepreneurial clients. USAID will assist SOGESOL in establishing agreements with money transfer companies and in building ties with migrant communities and HTAs in the US. SOGESOL currently has more than 7,000 clients and an active loan portfolio of over US$ 5 million. Women account for 65 per cent of their clients.[35]

d) Hometown Associations (HTAs)

The Latino HTAs in the United States draws together people from the same town or state in the country of origin enabling them to retain a sense of community as they adjust in the US Typically, their first purpose is social, extending to activities in the hometown. Perhaps the most successful and best-known example of migrant involvement in a range of development activities can be found in the Mexican HTAs. The Mexican state of Zacatecas has one of the oldest matching fund programmes, which have been emulated by two other states in Mexico. Under these programmes, the Mexican government teams up HTAs and other actors to spur economic development. Initially, for every dollar donated by the emigrants, the federal and state governments added a dollar each. In recent years, the municipal government has been an equal contributor as well. The projects funded tend to be projects that benefit the entire community, such as those pertaining to schools, health, sanitation and civic works.[36]

Among the LDCs, Mali and Burundi reported providing matching funds for local development projects supported by the diaspora. Malian and Senegalese groups in France have been active in financing communal projects in the country of origin.[37] In the Kayes region of Mali, contributions from Malians living in France have helped build 60 per cent of the infrastructure.[38] About 40 Malian migrant associations in France have supported nearly 150 projects valued at 3 million euros over a decade.[39]

e) Sound macro-economic policies and institutional framework

As mentioned in section three, the most important thing governments can do to stimulate remittance flows and realize their development potential is to create a sound policy environment that minimizes macro-economic uncertainty and ensures the transparency and standard regulation of financial institutions. Governments need to pursue sound monetary policies, including correctly valued exchange rates, ensuring a positive real interest rate and liberalize foreign trade. But this is not enough. Governments also need to establish an institutional framework for the safe and low-cost transmission of remittances and the competition and proper operation of all participants. In tandem with incentives, the most important step governments can take to stimulate remittance flows and realize their development potential is to create a sound policy and legal environment that promotes capital inflows, including remittances.

An indicator of financial sector stability is whether the people commonly use banks to deposit their savings. As Table 6 indicates, this was not reported to be the case in Haiti, Cambodia and Afghanistan in the LDC survey.

TABLE 6
USE OF BANKS FOR SAVINGS PURPOSES

Do people commonly use banks to deposit their savings?	
Uganda	Yes
Haiti	No
Cambodia	No
Bangladesh	Yes
Benin	Yes
Mali	Yes
Afghanistan	No
Burundi	Yes
Ethiopia	Yes
Lesotho	Yes
Tanzania	Yes

Apart from a few countries, as illustrated in section 3, not very much has been done in LDCs to directly enhance the development impact of remittances. There is, therefore, ample scope for specific actions and pilot initiatives. This should go hand in hand with promoting sound macro-economic policies and institutional frameworks that promote all financial inflows and investment, including remittances. The World Bank has recently argued that increasing incentives to boost flows and channel them towards more productive uses is more problematic than reducing transaction costs and improving the overall savings and investment climate.[40] Indeed, countries like India have promoted preferential NRI deposits as a means of generating foreign exchange and removed incentives once the foreign exchange reserves were no longer low. However a recent measure to levy taxes on interest from NRI deposits appears to have an adverse impact on the inflow of NRI deposits, which continue to play an important role in transferring Indian migrants' savings despite other investment opportunities.[41] Matching fund programmes such as that for Zacatecas in Mexico have indeed not been rigorously evaluated in terms of development impact.

There is no doubt that the scope and benefit of reducing transaction cost is clear and improving the overall climate for savings and investment is the best option and critical. However, the latter is often a medium to long-term process for nations. In the interim, incentives and specific opportunities for migrants to invest in their country of origin may be helpful, particularly if there is a foreign exchange crisis. Similarly, while much more can be done in terms of capacity building of HTAs and their partners regarding the effective implementation of development projects, and assessment of whether national funds are being diverted from better uses, there is little doubt that mobilization of philanthropic contributions of diaspora organizations for grass-roots development is a positive measure.

6. CONCLUSIONS

As remittances are private funds, there are essentially two stakeholders – the remittance sender and recipient. In between there are a host of actors – the intermediaries in the transfer process, governments in both receiving and sending countries responsible for the policy framework, supervision and facilitation, and institutions engaged in research and seeking to enhance the development impact of remittances. Governments of LDCs are clearly important actors given the potential role remittances can play in alleviating poverty.

To begin with, the paper recognizes the positive role remittances play in LDCs as a source of foreign exchange and in providing the many remittance-receiving households with an income to meet basic needs. In addition, there is growing awareness of the potential that remittances have to contribute to economic development in migrant-sending countries at the local, regional and national levels.

Many LDCs are active participants in internal, regional and intercontinental migration and will continue to be so at least in the medium term. As migration drives remittances, remittances will continue to play an important role as a source of finance in LDCs. The question that arises, particularly for LDCs, is how can the development impact of remittances be enhanced?

The first two steps in enhancing the development impact of remittances is, (a) to improve data collection and the knowledge base on remittances, and (b) promote measures to make the transfer process less costly, more accessible and safe. Moreover, measures can be taken to more directly enhance the development impact of remittances at the micro and macro level in LDCs.

The use of remittances as a resource for development in migrant-sending countries requires better information and data on remittance flows, usage patterns, transfer mechanisms, good practices, and attitudes and preferences regarding savings and investment schemes. Data collection is currently weak in most LDCs and can be improved by:

- Putting in place a centralized data collection and reporting mechanism for banks and MTOs so that remittance flows can be recorded and measured.
- Conducting household and key informant surveys to assess the kind of remittance services available and their efficiency; the volume of informal remittances; use and impact of remittances.
- Sharing of good practices among policymakers, remittance companies, banks and MFIs.

Reducing remittance transfer costs and increasing remitters' access to cost-effective, fast and safe remittance services, not only benefits migrants, but potentially also increases the funds remitted and available to the recipients in LDCs. There is ample scope in most LDCs to promote more efficient and safe services.

Steps that can be taken in LDCs in this regard are:

- Promote the regularization of the informal transfer sector through registration and filing of returns.
- Promote sound macro-economic policies and financial sector capacity building and accountability. This includes the setting up of simplified and clear regulatory frameworks pertaining to foreign exchange management and liberalization of the exchange rate regime.
- Introduce measures to deepen and widen the foreign exchange market and provide specialized banking services to non-resident nationals; involve a larger number of banking and other financial institutions in the transfer of remittances; increase access to banking service points both in the source and recipient countries to reduce costs and increase efficiencies.

- Strengthen communication and relations in general with the diaspora in different countries.
- Transform and adapt formal transfer systems to incorporate such qualities as speed, flexibility, cost-effectiveness and accessibility that make informal systems attractive to migrants and their households.
- Adopt innovative linkages between information technology and financial transfer systems to reduce the cost of remittance flows, taking into account the best national and international experiences.
- Ensure that countries that have an emigration clearance system for departing workers give migrants the opportunity to open a bank account of their choice; offer of low-cost pre-departure loans as a way of encouraging migrants to use formal banking channels.
- Disseminate information on remittance services and options via pre-departure orientation and in Migrant Resource Centres (MRCs) established in countries of destination.
- Enhance coordination between the Department of Labour Migration, the Department of Finance, major financial institutions and other agencies, as appropriate, on the issue of external labour migration and associated remittance flows.
- Strengthen capacity building for improved consular services for migrants, including the setting up of data bases and the issue of identity documents which are secure, to facilitate the use of formal remittance channels.

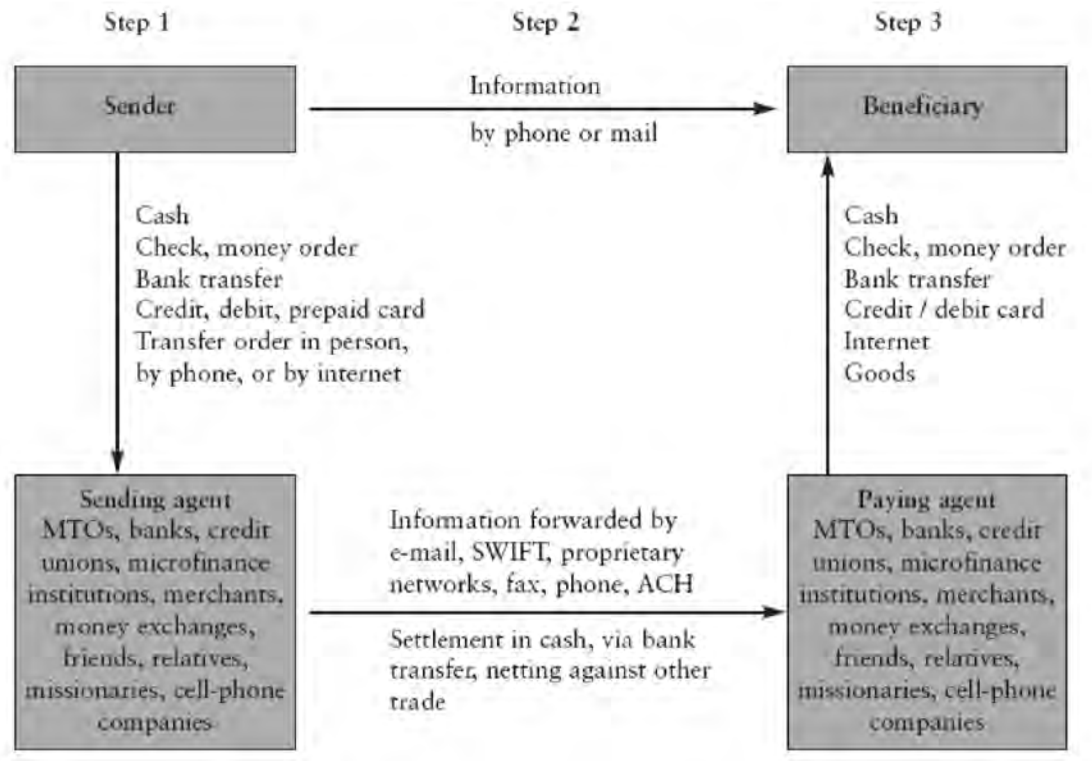
It should be recognized that remittance inflows are the source not only of foreign exchange receipts, which can be used to finance balance of trade deficits or the current account deficits, but also of productive investment and social development. Bearing in mind that remittances are private funds, the development potential of remittances can be magnified in LDCs through:

- The identification of productive and sustainable avenues of investment for remittances; for instance by facilitating the setting up of enterprises directly by migrants or through intermediate mechanisms, and by transferring savings via deposit accounts and specialized bonds, and by developing loan products for migrants and their families, including in housing.
- The formulation of policies that enhance the contribution of migrant associations to country of origin development.
- Improvement in the overall savings and investment climate.

The paper has recognized that remittances and migration, particularly labour migration, is closely linked. The effective management of labour migration, including protection of vulnerable migrant workers, enhancing legal labour migration opportunities and interstate cooperation, all contribute to increase remittance flows. Poor management of labour migration, on the other hand, will impede remittance flows. It has not been within the scope of the paper to address this issue except by way of introduction, but this by no means discounts the inter-relation and importance.

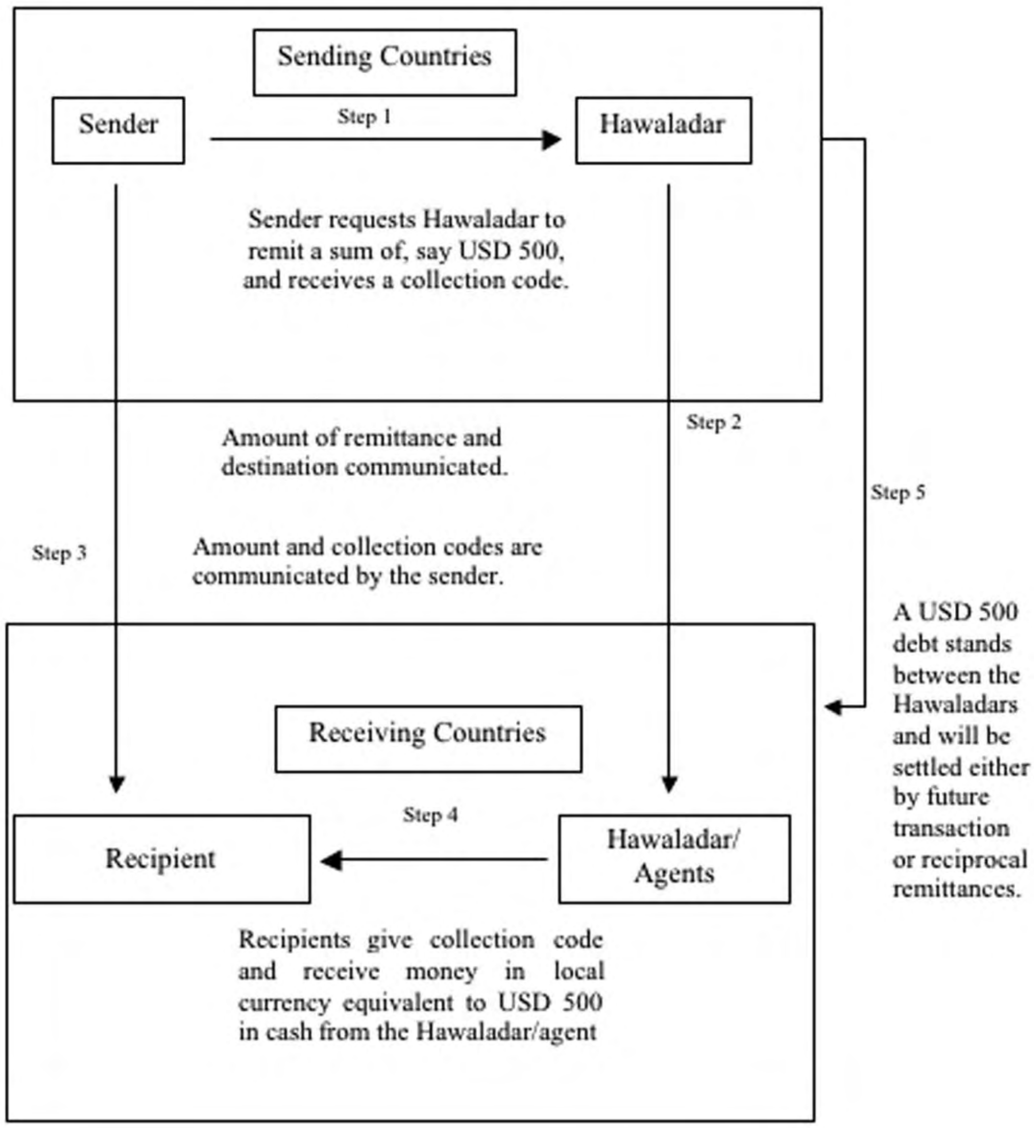
ANNEX

FIGURE 1 – STYLIZED REMITTANCE TRANSACTION



Source: World Bank, 2006.

FIGURE 2 – OPERATION OF *HAWALA* SYSTEM



Source: Uday Kumar Varma and S.K. Sasikumar, 2005.

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