CHAPTER 18.

TURNING REMITTANCES INTO INVESTMENTS

by

Daniela Bobeva,
Director, European Integration and International Relations,
Bulgarian National Bank

Introduction

The re-discovery of remittances as a major international financial flow has increased ambitions to manage and channel these funds into formal sector financial markets, to be used as loan funds for development projects or to be invested in the economy. Before devising grandiose schemes to re-direct them away from their current channels and uses, it should be remembered that remittances are privately owned funds. Government policy should start from an understanding of that, *i.e.* from an objective analysis of the potential and limitations of migrants' remittances to serve government policy aims. Much of the literature focuses on how remittances are spent by the recipients (generally spouses, children, parents and siblings) and their implications for the economies of their communities (often in terms of costs and benefits),[1] but less on the effectiveness of policies on remittances. Very little research has been carried out on the assessment of the policies applied to promote the impact of remittances on development policy. The history of migrant remittances includes a variety of policies, both failed and successful.

This chapter aims to draw some lessons from the experiences of attempts to turn migrant savings into investments and enterprise development. Based on a review and assessment of the impact of a broad range of policies governing remittances, an attempt is made at answering the following questions:

- Why do labour-sending countries need to attract migrant remittances for investment?
- Can *laissez-faire* policy turn migrants' savings into investments?
- What are the factors that shape migrants' decisions to invest?
- What are the limitations and the potential for the flow of migrant remittances to be used for investment purposes?

1. *Migrant Remittances to Latin America: Reviewing the Literature,* Deborah Waller Meyers.

- How can a set of investment promotion techniques for migrants' savings be designed?
- Can tax and monetary concessions help turn remittances into investments?
- What is good and what is bad governance?

The analysis is based on the understanding that the flow of remittances is fragmented and possessed by many different owners. For the purpose of governance, this flow needs to be very specific, navigated by a complex of factors such as those determining both foreign investment and local small and medium-sized enterprise (SME) development. The specificity of remittances is their very personal nature, and their ultimate aim to assure the survival of, and increase the living standards of, the family. Migrants who intend to invest are going to do so in such a way as to render their investment as sustainable as possible. Whether they choose direct investments, portfolio investment or financial intermediaries, the way to invest in savings depends more on the way opportunities are advertised than on a pre-determined strategy. This chapter analyses the main directions of government remittance policies, as well as the effects of a number of particular projects and incentives. The main finding is that good economic governance can do more to attract and turn migrants' savings into investment than policies based on incentives. Some policy preferences, such as tax and investment incentives, co-financing instruments, etc, play a role in attracting and channelling migrants' money, but their scope and time horizon is limited.

Laissez-faire or active remittance policies

All the policy proposals as regards the promotion of remittances as investments deal with the question of whether there should be a *laisser-faire* attitude toward remittances, whether attention should be focused on improving the general economic and political environment, and whether and in what form more direct intervention is needed. Given the increasing global competition between countries to attract investments, labour sending countries are increasingly obliged to design and implement policies that will make their countries attractive, not only for foreign investors, but for the savings of their emigrants as well. Although this chapter does not deal with the incentives used by labour receiving countries to keep the migrants' earnings, the more favourable investment climate and highly developed financial intermediation offer good alternatives for migrant savings. These are the main advantages of the developed countries in the competition to attract investments. The conclusion is reached later in the chapter that the main weakness of the remittance governance policies of developing countries, apart from the economic policy shortcomings, is the limited involvement of the private sector and financial institutions.

Labour sending countries need migrants' savings to be invested in the economy, not only because of the global competition for investment, but also because this will create a long-lasting link between emigrants and their home country, and be accompanied by the skills and knowledge gained in a more developed market environment. Studies indicate that the flow of migrants' remittance is less sensitive to global market fluctuations than other forms of financing. Thus, governments may need remittances to counteract the volatility of foreign direct investment (FDI) flows, in securing funds for development. Remittances have not received the sustained attention required by governments in the countries of origin, neither by the international financial institutions nor by the private sector. Most of the sending countries opt for a very limited or no particular policy as regards remittances. The *laissez-faire* approach is not wrong, if the overall economic policy is correct and allows migrants and their families to plan how to use the remittances.

Experience shows that governments who have no remittance policies or have put in place unsuccessful policies, may lose both public money and the money of migrants, and their confidence in both cases. What are the policy options and objectives for remittance management? Active remittance policy is often thought to mean incentives for migrants, mainly in the form of tax and monetary concessions. However, this is not necessarily the case. Experience has not confirmed that government policies to promote migrants investments are effective. What is certain is that a relevant policy could influence the flow of remittances. Governments could help to reduce the costs of transfers and thus increase the benefits for migrants, their families and the economy. This is why it is the duty of government to restrict illegal channels and encourage competition between the institutions dealing with money transfers. In order to increase the development impact of remittances, it is first of all necessary to promote official channels of transfer. The impact on development of informal remittances that never access the national banking or investment sector is often significantly lower.

Investment *versus* consumption remittances

The literature indicates a fairly strong consensus on the use of remittances. Regardless of the country, for the most part, remittances are used for daily expenses such as food, clothing and healthcare, and they make up a significant portion of the income of migrants' households. Funds also are spent on building or improving housing, buying land and durable consumer goods. Many researchers criticise this pattern of the consumption of remittances. Such an approach obviously ignores the private nature of migrant remittances. Furthermore, higher consumption increases the demand for goods and further investments. Migrants decide whether remittances will be used for consumption or investment, on the grounds of a strategy for improving household living standards. Care for the family dominates migrant's decisions. Given the circumstances in most countries of origin, the choice to invest or spend savings is made in a relatively unfavorable investment climate, with limited opportunities to start small-scale businesses.

Only a small percentage of remittances is spent on what is termed productive investment (*e.g.* income and employment-generating activities such as buying land or tools, starting a business, and other activities with multiplier effects). Although there are differences between countries as to the proportion of the remittances used for investments, in most cases, this is a minor part of the overall inflow.[2] There are many reasons for this, depending on the country, but in most cases, the main obstacles for migrants to invest are the limited investment opportunities and the fear of losing savings through inflation or political instability. Migrants' savings represent an enormous potential for investment in the countries of origin, but so far this potential has not been sufficiently exploited. In developing relevant policies for remittance investment, it should be taken into consideration that, although the total remittance flow is large, it is

2. In the Dominican Republic and El Salvador, for instance, researchers have found that remittances were spent first on basic household expenses, with the remainder used for improving the standard of living through better housing, education, additional consumption and loan repayment (Georges, 1990; Pessar and Grasmuck, 1991; Siri and Delgado, 1995; Boly, 1996). Remittances also cover consumption in Mexico, as 76% of Mexican migrants surveyed spent remittances (migradollars) on consumption, 14% spent some on housing, and 10% said they spent some "productively" (Durand *et al*., 1996).

comprised of a many relatively small, fragmented sums, owned by a large number of people. In addition, a migrant is not an investor or an entrepreneur by profession. The motivation, when deciding to invest, is rather different from the conventional investors' motivations.

Factors that shape the decisions of migrants to invest

Investment decisions are driven by a complex of factors that involve political, economic, social and enterprise development in the receiving country. In the last decade, governments and international organisations were successful in promoting the philosophy of foreign investment, which is welcomed in almost all countries. As increasing numbers of countries have put similar policies into place, they are now becoming a minimum requirement, and no longer a significant point of difference. Host countries are gradually being evaluated by potential investors on a broader base of policy considerations. Countries are striving to promote themselves by highlighting good macro-economic policies, such as: sound monetary policies that secure price stability and affect the costs of capital, pro-investment fiscal policies, and liberal exchange rate policies. The main determinants of foreign direct investments (FDI) are challenged by globalisation, terrorism, increasing competition and the ageing of populations in the developed countries. Traditional determinants of FDI, driven by the need to access markets, and natural and other resources such as low-cost labour, are still important to attract foreign direct investment, especially on a large scale. Countries are all the more competitive if their domestic markets are larger in size and growth, with geographic proximity and access to key potential markets. The factors that determine migrants' decisions to invest are similar, since they expect to have a secure investment with a high degree of return, but it seems that they are less demanding when investing than foreign investors, and particularly the large ones (Table 18.1). This may facilitate governments in designing policies that encourage migrants to invest. They live in an era of competition between countries to attract not only foreign investments but the migrant's savings as well.

Natural resources have declined in relative importance as determinants of foreign direct investment, but still remain the key for numerous enterprises and in many countries. They are also less important as a factor in shaping the decision of migrants to invest their savings in the home country. Effective national policies aimed at directing migrant remittances to investment in the home economy require a thorough understanding of the determinants of migrants' investment decisions, including their long-term strategies. The difference between the factors that determine migrants' and foreign investors' decisions to invest is that, as opposed to foreign investors who base their decisions mainly on rational criteria of cost-benefit-calculations, migrants usually preserve their emotional links to their home country. Therefore, their decision is not only dependent on objective criteria, but also on subjective factors such as prestige and the wish to contribute to the development of their home country. Therefore, it is a challenge for policy makers to develop investment opportunities that succeed in attracting migrants' savings.

Table 18.1. Factors in decisions to invest in a migrant's home country

Factors Overall Policy Framework	Foreign investors	Migrant investors
• Economic and political stability	+++	+
• Rules regarding free entry and operation of foreign companies	+++	0
• Bi and multilateral agreements on foreign direct investment (FDI)	++	0
• Privatisation policy	+++	0
• Rules for free repatriation of profit	+++	+
• Administrative efficiency: time taken to obtain the necessary approvals and licenses	+++	+++
• Corruption perception and anti-corruption policies	+++	+++
• Availability of regulations that clearly define and allow exit for investors	+++	0
• Reliable public procurement rules	++	+
Business facilitation		
• Administrative procedures	+++	+++
• Investment promotion (*e.g.* facilitation services)	++	+++
• Investment incentives	+	++
Economic determinants		
1. Relating to resource investment		
• Raw materials	+++	+
• Complementary factors of production (labour)	+++	+++
• Physical infrastructure	+++	++
2. Relating to market investment		
• Market size	+++	+
• Market growth	+++	+++
• Regional integration	++	+
3. Relating to efficiency investment		
• Productivity: adjusted labour costs	+++	+++
• Sufficiently skilled labour and low cost labour	+++	+++
• Business-related services	+++	+++
• Trade policy	++	+
Other Considerations		
• Keeping family, community relations	0	+++
• Prestige	0	+++
• Improving family living standards	0	+++

Note: 0-+++ indicates the degree of importance.

The major concern for investors is the investment climate in the receiving country. Many researchers[3] have confirmed that the tendency to remit is, to a significant extent, a reflection of the macroeconomic policy regimes of labour-sending countries. Therefore the best solution to the problem of increasing migrants' investments would be to implement wide-ranging policy reforms aimed at making the financial environment attractive. Remittances, like investments, are often sent to countries with sound economic policies. Improvements in policies and the relaxation of foreign exchange controls

3. Puri, S. and T. Ritzema (1999), *Migrant Worker Remittances, Micro-finance and the Informal Economy: Prospects and Issues,* Enterprise and Cooperative Development Department/Social Finance Unit, ILO.

encourage the use of remittances for investment. As one research team concluded, "... the way for policy makers to encourage productive investment is ... to pursue macroeconomic policies that yield a stable and propitious investment climate and to make expenditures on the infrastructure of specific communities which makes investment an attractive, profitable proposition" (Durand *et al*., 1996). Successful investment governance is based on good macroeconomic policies and appropriate monetary, exchange rate and tax policies (such as currency convertibility and no exchange controls). Improvements in the countries' financial and regulatory systems promote political and economic stability, limit risks, and increase the returns on investment. Investment in basic public works and infrastructures, such as roads and communications systems, also would be useful. There should also be a focus on small business development and the provision of funding, credit and technical assistance.

Good economic governance is the most efficient tool to attract migrants' remittances through official channels. Three indicators, the higher financial intermediation ratio (M2/GDP), the smaller black market share and the less restrictive exchange and trade policies largely explain why Korea, Sri Lanka, Bangladesh and Thailand have below average remittance tendency ratios. The foreign exchange regime is a very important component of the investment climate. Migrant remittances could be attracted as investment if the foreign exchange regime is favourable. There should be no restrictions on the transfer or conversion of the local currency. Similarly, there should be no restrictions, limitations or delays involved in converting or transferring funds associated with investment (including remittances of investment capital, earnings, loan repayments, or lease payments) into hard currencies at market rates. These policies should be long-standing and not susceptible to change in any way. Such important considerations for foreign investors as free repatriation of profits, bilateral agreements for FDI, the free entry and exit regime for foreign investment, and the size of the country, have no impact on migrants' decisions to invest. The main factors are related to the concrete opportunities that a country offers to small and medium enterprise sectors.

Migrants' investments do not fall into the conventional forms of investments: markets, resources or efficiency seeking investment.[4] The selection of the destination for the investment by the migrant is pre-determined mainly for safe and reasonable return on savings as a powerful instrument for survival and the prosperity of the family. This is a long-term strategy aiming to achieve rational and emotional benefits. While studying migrants' motivation and abilities to invest, the following limitations are identified:

- Relatively small size of investments: this requires specific policy instruments to consolidate migrants' savings into larger sums and/or to design measures appropriate for the promotion of smaller investments.
- Lack of a good knowledge of sectors and the labour market; limited contacts with the enterprise sector. Any policy to encourage the investment of migrants' savings should focus on market consulting, provision of market information as well as creating relations with local businesses.

4. Nunnenkamp, P. (2002), *"Foreign Direct Investment in Developing Countries: What Economists (Don't) Know and What Policymakers Should (Not) Do!"*, Monographs on Investment and Competition Policy Centre for International Trade, Economics and Environment (CUTS), Jaipur.

- Choice of destination of the investment: made not on the basis of the competitive advantages of the country and the region, but rather on personal and family ties. This makes such investments riskier than those based on a rational selection process. The higher risk factor of those investments very often leads to failure.

Policy objectives and forms

As competition intensifies between countries to attract investments, governments are moving ahead with increasing efforts to be pro-active as promoters of investments into their countries. Governments have to expand the number of policies that investors view as constituting a good investment climate, to take into consideration the greater demands on the effectiveness of investment policies, to offer new policy targets that cut across traditional policies such as those affecting the labour skills and technological innovation. Although the factors that bring foreign investment and remittance based investments are similar, the focus of the policies should be rather different in the case of migrants' investments, in order to take into consideration the specific nature of this financial flow and the motivation of migrants. It seems that migrants' investments are less demanding as far as the general legal and institutional framework is concerned, but more personalised policies are demanded to convince migrants to invest their savings.

The general objectives of policies to turn migrant remittances into investment may be:

- Use of remittances to promote development and a smooth transition towards economic development.
- Accommodation of remittances in the plans of the country to increase the potential of the economy to compete in international markets.
- Enhancement of capacity of remittances to generate growth.
- Stabilisation of their fluctuating effects over time.
- Attraction of migrants' skills and knowledge for the economic development of their country.
- A narrowing of the gap between migrant families' preferences in spending remittances, and government objectives for the use of remittances.

In designing such policies, the goals to be set must be more realistic. In the context of overall economic policy the remittances policy may be a part of the investment promotion policy. Experience suggests that countries such as Malta and Estonia, that still receive substantial remittances, have offered a broad range of investment promotions for migrants as part of their FDI policy. In other countries, this policy is constituted in the framework of the SMEs development policy, while a few countries have opted for a special remittance policy and strategy (these are the countries with the largest emigration flows).. Policy instruments are derived from the experience of both foreign investment promotion instruments and techniques to encourage entrepreneurship and SMEs.

Governments in labour-exporting countries have generally been more interested and more successful in developing policies to attract remittances than in influencing the ways in which they are used. They may use a variety of measures to promote direct investment and portfolio investment of migrants. It has been suggested that remittances would be safer and used more productively if they entered the banking system before being invested. Giving preference to indirect investments depends on the level of the development of banking and financial intermediation, public trust in financial sector institutions and the existence of prudent supervision.

Remittance governance basically takes the following forms:

A. Business procedures, such as: business and investment counselling and training; information on investment opportunities; promotional seminars; special guides for migrants intending to invest; creation of special public institutions that provide services for migrant-investors; and activities that create linkages with local businesses and entrepreneurs. These measures benefit from easier communication with the migrant.

B. Entrepreneurship programmes that rely on direct support to migrants who wish to start their own business, including: preparation of business plans and feasibility studies; direct tax and no-tax concessions; financial support and co-financing initiatives; facilities to allow migrants to import machinery and equipment at concession rates of duty, micro finance schemes.

C. Promotion of investments in the financial sector and financial intermediaries. These may take the form of a broad range of financial products and equity investment in the financial sector such as: securitisation; creation of remittance development banks; participation in the securities market; creation of equity funds, etc.

D. Investments and donations in community projects.

Most of the policies and incentives aiming to turn migrants' savings into investments have short rather than long-term perspectives. The ultimate goal of such policies should be sustainable investments and migrants' enterprises. The author fully rejects the policy of the mandatory means used to channel remittances into investment. Such an approach ignores the private nature of remittances and the freedom of choice. One of the main weaknesses of remittance policy incentives is that they are basically understood and implemented as solely government policy. This leads not only to an overburden on public spending, but also may contribute to the creation of investments which are not welcomed by the business environment. Good remittance governance is that which is based on the initiatives and involvement of local businesses, local credit and financial institutions, local communities and government.

Policy instruments may be addressed to the individual migrant, to migrants' families or to migrant diasporas. Some countries give priority to collective forms of investments. This is feasible where strong migrant communities are established. Good communications with the migrants is essential to a properly designed remittance policy. Some countries offer migrants favourable conditions to return to their homeland, to visit their relatives and to look for investment opportunities. In many cases (for example India and Vietnam), the local chambers of commerce are involved as a facilitators of migrants' investments in their country of origin, while migrants themselves may facilite contacts with foreign investors. Experience suggests that there is no single instrument powerful enough to turn a substantial proportion of remittances into investments: it is always a complex of instruments that may achieve higher investment impact. However it is much better to use the policy measures that have achieved a better cost-benefit ratio.

Policy instruments

Investments in public infrastructure

Among the policy instruments designed to channel migrant remittances to investment are the pilot projects that strengthen the ties between migrants working abroad and their home communities. These are focused on infrastructure and community development. Such projects mitigate the major risks involved in the migrant investments, *i.e.* their fragmented and small size, and the lack of investment knowledge and skills of migrants. The consolidation of migrant savings as well as the professional management of such project funds co-financed by reliable institutions makes such a policy instrument relatively popular.

Box 18.1. Examples of community programmes

IOM Community funds project in Guatemala

The objective of this project is to offer alternatives for rural communities in Guatemala which tend to generate irregular migration towards the United States. The project seeks to make the most efficient use of the close relationship that already exists between villagers and migrants, and aims at creating social investment funds, while offering an effective transfer, investment and marketing system.

The project consists of: 1) A banking service which is a financial bridge between the United States and Guatemala, 2) A communications system between the villagers and the migrants will be installed, based on new telecommunications and internet technology, and 3) A market for joint purchases and sales from the community to national and international markets will be developed that allows villagers to move from individual trading and marketing strategies to more effective collective approaches.

IOM Community funds project in Colombia

The objective of this project, still in the developmental stage, is to create a social investment fund for productive small-scale projects for vulnerable populations, especially the internally displaced. Two scenarios are under consideration. In the first, the IOM would become one of the main operators of remittances to Colombia at very low cost. The second scenario envisages the establishment of strategic alliances with ongoing operators and regional financial institutions.

IOM: International Organisation for Migration.

Governments frequently develop schemes to encourage migrants to invest in small community infrastructure projects, mainly in the cases where strong migrant associations are active in promoting such ideas. For example, associations in the United States organise migrants from some Latin American countries such as El Salvador, Guatemala, Honduras, Mexico and the Dominican Republic, and regularly send donations to finance investments in community projects and local development in the home countries. The average size of these donations varies widely: from USD 10 000 per year in Guatemala to USD 5-25 000 per year in the case of Mexican migrants (Ellerman, 2003). These funds are often matched by co-financing provided by the migrant's home country. This is the case of the famous Mexican "3 for 1" programme. In framework of this programme, the Mexican federal government, the state and the municipal government complement each dollar of remittances invested by a migrant's mechanism reassures the migrants that their money is used for sustainable investments. Although broadly advertised and presented, this programme has had a very marginal impact. The total investment made by migrants to these projects amounts to around USD 4.5 million (Micklewright and Wright, 2003). The active policy to promote the links with the community of migrants involving their savings in community projects is a sophisticated tool to reach these objectives. The main disadvantages of such projects are that they are expensive and that they are based on emotional rather than rational motivations, like prestige, community links and charity. This is why this policy instrument has a very limited potential to accumulate migrants' savings.

Investment and business facilitation

Business and investment facilitation is typically dealt with by investment promotion agencies and by organisations which promote SMEs. They may be assigned the task of servicing migrants who want to invest in the following:

- Counselling, speeding up the approval process and assistance in obtaining permits. These services are better provided by "one-stop shops".
- After-investment services related to day-to-day operational investments may be offered.

Since migrants are a group of potential investors apart, they may need specific information and counselling. This is why many countries have established investment and business promotion agencies for migrants. Assisting in their investment plans should be carried out in the broader context of investment promotion, and not create grounds for discrimination by other local and foreign investors. Return migrants and remitters need attention and without this, far less of them will invest. Investment counselling may be provided, not only by both the governmenta agencies and non-governmental organisations (NGO) also. The experience of the overseas Pakistanis foundation (OPF), a non-profit organisation created for the welfare and advancement of Pakistani immigrants, suggests that there is a high demand for such services: investment advisory services, assistance in obtaining services from relevant government departments, etc. The overseas Pakistanis foundation publishes as a special *Guide to Investment* for return migrants, providing information on the credit facilities, savings schemes and business advisory services available.

Similarly, in the Philippines, the overseas employment administration, together with the International Labor Organisation (ILO) began to develop a programme to establish training centres in regions of high migration. The aim of such institutions is to provide business consultancies, information services, training in small-scale business management and financial support, to return migrants and their families (ILO/UNDP, 1988). Counselling services to return migrants are provided in Sri Lanka, by the return migration branch. For various reasons, this programme never became fully operational. Many governments offer specialised programmes for remitters and return migrants to encourage them to develop businesses. The government of Korea, for example, launched an experimental training programme for return migrants in early 1986. This aimed at retraining return migrants in new skills, so that they can move to other industries or establish their own business. By mid-1986, some 4 000 workers were participating in the scheme (Hyun, 1989). A good example of such programmes is the involvement of local businesses and banks. For example, in Thailand, the Bangkok Bank offers an advisory service on investment opportunities to its migrant-worker customers. The workers who seek advice are also eligible to obtain supplementary loans from the banks if they have a good savings record. Such programmes need wide advertising in order to reach as many migrants as possible.

Business facilitation policy instruments aim to overcome some of the main obstacles confronting migrants when deciding to invest: the lack of information about investment conditions, business opportunities, and the legal and institutional framework. Information services may overcome the problem of the distance that separates the migrants from the home country when they decide to invest, and continue to work abroad. As many studies indicate, migrants expect government attention in order to invest in their home country. To address this concern, government business facilitation programmes should have a special focus on the promotion of migrant investments. Some countries develop special guides for migrants-investors; others organise promotional tours around migrant communities abroad. Such initiatives may have a particular purpose, *i.e.* to generate particular funds for a project, to attract remittances to help country overcoming current financial difficulties.[5] All these initiatives take advantage of the emotional links of migrants with their countries and could be beneficial for both sides. Migrants need to be convinced to invest in the country they left. Very often governments address the migrants with open and clear policy messages. For example, the Finance Minister of India urged the Indian diaspora to turn their remittances into investments: "We welcome remittances but we want much of that to transfer from savings to investments, whether you invest in industry, the services sector or in the social sector". It can hardly be believed that such messages are enough to turn remittances into investment but at least this is a first step.

Linking remittances with the enterprise development

Many governments design and implement a wide range of policies that encourage migrants to start up their own businesses. Such policies take advantage of instruments of SMEs promotion rather that foreign investment promotion techniques. Their success is difficult to assess, since in some countries their scope is very limited. In some countries the SMEs sector depends heavily on remittances, although there were no specific programmes or direct government influence in this. In Dominican Republic, El Salvador, and Mexico, strong connections exist between small business owners and former migrants. Some have acquired skills in New York, have clients in New York, or used remittances to start or maintain their businesses.[6] Lopez and Seligson (1990) studied the use by small businesses of remittances and found that as many as one-third of them depended on remittances to get started, and as many as two-third required remittances to maintain their business. The situation is similar in Mexico, where *migradollars* have increased the possibilities of business formation and productive investment by households and communities. One study found that 63% of businesses surveyed were owned by present or former migrants, 61% of which were started with money earned in the United States and 44% of which were sustained that way (Cornelius, 1990).

5. For example, the Philippine government addressed the overseas migrant communities to assist in alleviating the effects of the impending fiscal crisis through the increased inflow of funds. The campaign had the following targets: 1) encourage the Fil-Am community to remit an additional 20% of current remittance levels. 2) invite the Fil-Am to invest at least USD 2 000 in blue-chip Philippine stocks and/or government securities.

6. Cornelius (1990), Lopez and Seligson (1990), Portes and Guarnizo (1990). In the sample studied, 90.3% of the business owners were returnees or lived abroad, 89.4% had started their businesses with money earned abroad, 42.5% still received remittances and 71.7% had former migrants as workers. Though the investments were irregular, the total investment from migrant savings in their sample was USD 1.2 million, 57% in cash, 37% in-kind. The mean value of each transfer was USD 5 400 and the median value was USD 3 000).

As studies showed, in some countries[7] like Pakistan, relatively little remittance income from family members working in the Middle East was channelled into business investments, despite government incentives offered to migrant households. The best predictors of business investment are the pre-existing level of business exposure/experience in the family and whether the family head was aware of business investment opportunities. Business start-up requires a certain level of resources, education, occupational skills, economic factors, and family labour (in addition to an appropriate economic and political environment). It seems rather common in all countries that the relatively small size of these businesses and their limited employment generation impact is more attributed to conditions in the migrant's country rather than problems with the businesses themselves. Further, while remittances contribute to economic development by providing capital and business development, they do so within the context of other influences and cannot be the sole basis for development (Massey and Parrado, 1998).

When starting up a business, migrants aim to achieve long-term benefits for their families, a stable return on investment and employment for the family members. The different schemes used by governments take this motivation into account and focus on direct and personal advice to migrants who intend to start businesses.[8] In recent years, international agencies operating in Asian and other labour exporting countries have launched programmes aimed at converting migrant savers into entrepreneurs. A major constraint is the limited reach of such schemes, which account for only a fraction of the total remittance inflow. The government of Sri Lanka was the first labour-exporting country in Asia to launch an entrepreneurship development programme for return migrants (Rodrigo and Jayatissa, 1989). This programme has been operational since 1982 and aims at guiding returning migrants in business creation. Experience clearly confirmed that the more highly qualified return migrants were more successful in participating in this programme than the unskilled. Second, the possibilities of guiding candidates into business are limited unless accompanied by measures to facilitate the access to capital. Third, the ability to identify and develop a project as well as managerial skills needed to run a business, cannot be imparted only through a programme of class instruction.

The outcome of the Sri Lankan scheme is not different from that of similar attempts elsewhere. In particular, in Turkey and the former Yugoslavia, schemes to encourage investment by migrants, through workers' companies and village development co-operatives have had mixed results, for similar reasons (Ebiri, 1985; Penninx, 1982). On the whole, then, the attempts of governments of labour-exporting countries to encourage migrants to start business have a mixed record. It has been confirmed by experience in many countries that overly bureaucratic plans to encourage remittance investment were not attractive to migrants (Diaz-Briquets and Perez Lopez, 1997). According to Russell, the general economic and political factors in the remittance-receiving country can be more influential than many of the special programmes created by governments, and that these "policy measures to capture and influence the uses of remittances have been considered relatively ineffective when viewed in relation to the total volume of remittances" (Russell, 1986).

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7. Sofranko, S.J. *et al.* (Sept. 1999), "Use of Overseas Migrants' Remittances to the Extended Family for Business Investment. A Research Note", *Journal of Rural Sociology*, Vol. 64(3), pp. 464-481, Subject Matter Community Development, International, Pakistan.

8. Judith van Doorn, *Migration, Remittances and Small Enterprise Development*, ILO.

Experience has proven that it is difficult to convert migrant workers with no prior business experience into dynamic entrepreneurs. Even if successful, such a policy has only a marginal impact on the overall flow of remittances. That is why governments, banks and financial institutions introduce financial intermediaries that capture remittances as deposits and channel them to existing small businesses, rather than transforming migrants directly into entrepreneurs. While such a policy well mitigates the risks, the ultimate prerequisite to implement such schemes is the reliability and viability of financial sector. The involvement of public and international financial institutions is the guarantee for the prudent management of migrants' money but the credibility of the government and of its policy is the decisive factor for any migrant's interest towards such savings accumulating institutions. Many international organisations strongly support the policy of promoting micro-finance institutions[9] from the prospective that it has an international dimension, it is of growing relevance in view of the increasing number of migrant workers and it contributes substantially to the national income of many poor countries. Moreover, the hope is that such institutions may attract even the migrants' savings that are not transferred through official channels. Creating micro finance intermediaries governments may manage such remittances safely and cost-efficiently.

Do the incentive programmes make a difference?

Many governments, recognising that remittances are a significant source of finance, attempted to use incentive programmes to attract these funds and encourage their investment in the home countries. Researchers also view remittances as a potential source of financing and encourage governments in promoting such policies. As already described promotional efforts of governments to attract remittances for investment may well go beyond narrowly-defined business facilitation and include fiscal and tax incentives. Most of the incentives are provided on a temporary basis. The assessment of the efficiency of such incentives varies from strong approval to strong criticism. This discussion is broadly similar to the one about the foreign investment incentives.

The investment incentives offered by the governments to migrants include:

- Short-term incentives: promoting return visits, tourism, return after retirement, supplements for small businesses (Bascom, 1990; Diaz-Briquets and Weintraub, 1990; Seligson and Lopez, 1990; Siri and Delgado, 1995). A few countries have implemented these types of incentives.
- Premiums on deposits. Sri Lanka, Bangladesh, Pakistan, India and Turkey all have foreign currency accounts that pay above-market interest rates and convert into local currencies at premium rates (Taylor *et al.*, 1996). India also shelters income from certain migrant investments as long as the migrants remain outside of India. Egypt and Turkey both have offered good exchange rates for certain migrant investments and Poland offers a good rate of exchange on social security checks.
- Promotion of the import of investment goods. This is a very particular policy instrument to promote the use of remittances for investment. The free import of investment goods by migrants encourages business start-up. For example, Pakistan has a non-repatriable investment scheme, under which overseas

9. Shivani Puri and Tineke Ritzema, *Migrant Worker Remittances, Micro-finance and the Informal Economy: Prospects and Issues*, ILO Working Paper No. 21.

Pakistanis (including those returning permanently) are allowed to import machinery and equipment at concessionary rates of duty to establish manufacturing enterprises. The rate of duty rebate varies, *i.e.* projects in relatively under-developed areas receive a higher rate of rebate. In India, migrant workers who return home for permanent settlement and wish to set up a new industrial unit or participate in the expansion of existing business units are given preferential access to capital goods and raw material imports. The impact of these schemes has not yet been assessed. However according to the available evidence, their impact so far has been rather insignificant (Nayyar, 1989; Kazi, 1989).

- Preparation of feasibility studies for migrants' investment projects. This incentive is provided to facilitate the choice of investment projects.
- Access to the free economic zones. In some countries migrants are eligible in free economic zones, export processing zones and other similar areas of countries where they enjoy complete duty exemptions on machinery and raw material imports, and some tax relief.
- Fiscal and tax incentives. Such policies are granted on the basis that as sociologists Massey and Basem wrote, "...migrants tend to save, remit, and invest productively when the incentive structure is such that this behavior is likely to be rewarded" (1992, p. 204).

Economists have long argued that the use of discretionary fiscal and financial subsidies to attract investment is ineffective. Such arguments may be re-stated in the case of investment incentives for migrants. Moreover, it should be kept in mind that no promotional efforts or incentives will help attract significant investment if economic and political fundamentals are not conducive to migrants and investors. Although it seems that possible tax concessions for migrants' investments may attract more remittances to the enterprise sector, the impact of such a policy may have a negative impact. In such cases smaller local investors and foreign investors may suffer discrimination. Moreover, this measures may be costly and weaken public finances. Unequal treatment of investors could harm the investment climate and jeopardise investments in the country. Some studies go far in opposing that government policy to offer investment concessions for migrants. "Furthermore, … aid policy should not be targeted at promoting productive and labour-saving investments by migrant families, since they are already wasting the capital that they own. Rather, policies targeted at helping non-migrant families could create enough incentive to encourage the former ones to be more efficient."[10]

Promoting migrants' investments in the financial sector

Governments and financial institutions provide migrants with some attractive investment opportunities in the financial sector. There are various mechanisms for leveraging remittances in the receiving countries: governments and local financial institutions can issue bonds for emigrants, who would earn an interest rate, creating a more attractive instrument for channelling remittances. Another possibility is for domestic banks to offer migrants foreign currency accounts that are free of exchange rate taxes and other regulations. There are examples of savings services for migrants and their families such as repatriable foreign currency accounts, foreign currency denominated

10. Azam, J.-P. and F. Gubert (2004), *Those in Kayes: the Impact of Remittances on their Recipients in Africa. Do Remittances Hinder Technical Efficiency in Agriculture?,* The European Development Research Network (EUDN).

(remittance) bonds; prize bonds; savings certificates. In many cases these services are characterised by a favourable interest rate policy, a premium exchange rate and limited restrictions on withdrawals. Such measures may help attracting migrant remittances in the banks and financial sectors in short time horizon but may have a negative impact on development of the financial sector in developing countries.

Migrants' remittances may be used reliably for future-flow securitisation along with other future-flow receivables such as oil exports or credit card receivables. For example, the Banco do Brazil has issued USD 300 million worth of bonds with future Yen remittances from Brazilian workers in Japan as collateral. These securities were rated significantly higher than Brazil's own bond issues. The asset securitisation already has been tried by some European investment banks which involves lending money to banks in developing countries (one example is Mexico) based on the expected inflow of funds from remittances. A related suggestion is to encourage banks that depend on the remittances for cash flow to invest some of the funds in the countries to which the money is transferred (Pastor and Rogers, 1985). The experience of the creation of specialised remittance banks did not enjoy the success expected. The aims of such banks were to link migration with development[11] with the principal objective of transforming migrants' savings into productive investment. The products offered by such banks vary from identification of appropriate areas for local investment, preparation of feasibility studies, evaluation of projects, and assistance in setting up enterprises to provision of credit and traditional banking services.

Recently, international financial institutions supported the idea of creating multilateral remittance banks with the aim of helping to identify potential investments. Migrants would deposit their remittances in the banks, which would transfer the requested percentage of remittances (directly or through investment dividends) to the migrants' families. The remainder of the funds would stay in the bank and be used as leverage for international and regional funds for development projects. The funds also could go into an investment fund for local projects or be used as additional financing for small business development, along with technical support. Although such proposal would address the problem of governments lacking the matching funding required to receive international aid for projects, this would take migrants' savings from away from the banking system in developing countries. Further, creating institutions without prudent supervision rules, as well as provision of some preferences, would have a rather negative impact on the competition in the banking system.

Sustainability of migrant investments

The sustainability of a migrant investment flow depends on migration trends as well as on the factors that turn them into investment. Broadly speaking, the life-cycle of the migration process at the country level is that for growing economies with rising per capita incomes, differentials across countries in the income per head will diminish, reducing the incentives for emigration. Thus the relative importance of remittances is likely to decline as a country develops further. While this is valid mainly for remittances from low-skilled migrants, for the highly skilled, well-educated individuals, migration flows at the high per capita income levels are likely to continue. In this case, it could be expected that

11. The Turkish DES□YAB bank ceased to exist following a merger with the Turkish Tourism Bank. It is now the Turkish Development Bank, which does not have the same purpose as the former State Bank for Industry and Migrant Investment.

remittances may continue and their role in investment may substantially change. It is more relevant to expect that highly skilled migrants may invest in more sophisticated sectors and forms like in financial sector and knowledge based small and medium-sized enterprises.

Many of the policy instruments used by the governments to attract migrant investments are of a temporary nature and the results seem to be the creation of investments with short-term prospectives. One of the lessons learned from the long experience of remittance governance is that their sustainable development impact could be proved if both the remittances and government efforts are invested in viable and sustainable projects and enterprises.

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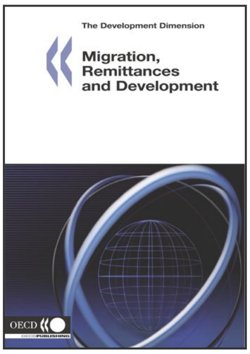
REMITTANCES AND PROMOTION OF DEVELOPMENT: SOME PROPOSALS



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