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# Emigrant Remittances: Policies to Increase Inflows and Maximize Benefits

ALEXANDER C. O'NEILL\*

Emigration from developing countries to developed countries shows no signs of slowing in this era of globalization. While there are positive and negative aspects to emigration for both sending and receiving countries, developing countries, which are most likely to be labor-sending countries, should focus their attention on maximizing the benefits that accrue from the positive aspects of emigration. One of these positive aspects is remittances that working migrants send to relatives still living in their country of origin. While the amount of remittances a country realizes is dependent on many factors, the general trend in remittance inflows is that they are increasing. Developing countries, ready to explore every option available to increase their citizens' welfare, should focus on developing policies that maximize and channel this increasing flow of remittances.

This paper first gives a brief overview of the migration-development discourse. Part II will then examine remittance trends and the magnitude of remittances, both worldwide and in specific countries. Finally, Part III will discuss the factors that are important determinants in the amount of remittances a country receives, examples of policies used to maximize remittances, and examples of policies designed to channel remittances into programs that maximize social benefit.

## I. MIGRATION AND DEVELOPMENT

Throughout the discourse on migration and development there have been two prominent opposing positions. One position takes a negative view of migration, arguing that it is merely a response to "the need and strategies of transnational capital."<sup>1</sup> The opposing position contends that migration is mutually beneficial to

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1. Kenneth Hermele, *The Discourse on Migration and Development*, in INTERNATIONAL MIGRATION, IMMOBILITY & DEVELOPMENT 133, 134 (Tomas Hammar et al. eds., 1997).

both the sending and receiving countries.<sup>2</sup> This is the view adopted by the World Bank and the Brandt Commission.<sup>3</sup>

However, a third view, widely held among economists for some time, is now gaining credence among migration<sup>4</sup> and development researchers as well. Described as the “ambivalent position,” proponents of this view argue “that the migration-development relationship is complicated, unresolved, unsettled, uncertain, critical, even unexplored(!), or both positive and negative for emigrant as well as for immigrant countries.”<sup>5</sup> Economists who adopted this view during the 1950s and 1960s believed that migration both helped and hurt development. Their ambivalence about migration stemmed from their observations that migrants’ remittances helped expedite development, while the emigration of skilled workers from developing countries impeded development.<sup>6</sup> “Until quite recently the customary position was to underline the negative impact of migration on emigration countries.”<sup>7</sup> Today, based on the mixed evidence of the impact of migration on development, this ambivalent position is warranted more than ever.

The issue at the heart of the migration-development debate is whether or not emigration stimulates development. Hermele provides a useful summary of the three positions stated above. The first, or “negative position,” is that emigration hinders development. This, it is argued, occurs in several ways. When migrants leave their homeland, they take the skills they have acquired with them. This phenomenon is known as “brain drain.” When highly educated or skilled workers migrate from developing countries to developed countries, the developing country loses not only talent and potential, but also the opportunity to recoup the educational investment in these individuals.<sup>8</sup> In addition, it is likely that these individuals will gradually sever social ties with the sending country, never using their knowledge and skills to aid the development of the sending country. This leads to a decline in, and eventual termination of, remittances.<sup>9</sup>

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2. *See id.*

3. *See id.*

4. *See id.*, at 134.

5. *Id.*

6. *See id.*

7. *Id.*

8. *See generally* William J. Carrington & Enrica Detragiache, *How Extensive is the Brain Drain?*, 36 FIN. & DEV. 46 (1999), available at <http://www.imf.org/external/pubs/ft/fandd/1999/06/carringt.htm>; Hermele, *supra* note 1, at 136; MIGRATION OF TALENT: CAUSES & CONSEQUENCES OF BRAIN DRAIN (Yogesh Atal & Luca Dall’Oglio eds., 1987) (presenting three studies analyzing the brain drain in Asia).

9. *See* Hermele, *supra* note 1, at 138.

This position argues that even if emigrants do return home, they do not expedite development and, in fact, likely impede development. When emigrants return home, there is often little demand for the skills they possessed prior to emigration, so they become unemployed or employed in positions that do not fully utilize their skills. For example, many immigrants may have initially migrated from rural agricultural areas, but, upon their return home, most do not return to farming.<sup>10</sup> In addition, studies have shown that many emigrants are not likely to acquire new skills abroad that they can use productively in their homeland. In one study, for example, two-thirds of Thai migrants living abroad worked with skills they already possessed before emigrating or worked in jobs that required fewer skills than they possessed.<sup>11</sup>

Furthermore, the negative position argues that remittances sent back to the emigration country contribute little to development. Remittances are often spent in unproductive ways, such as for the repayment of debt or for transportation, and some percentage is wasted on conspicuous consumption or saved as a nest egg for old age.<sup>12</sup> Remittances can also lead to inflation as the pace of consumer demand exceeds the productive capacity of the country. As countries struggle to keep pace with demand, imports are often substituted for domestically produced goods, which can hurt the balance of trade.<sup>13</sup>

In contrast, proponents of the “positive position” argue that emigration actually stimulates development. This conclusion is reached in part by examining the available evidence from a different angle. The advocates of this position argue that the emigration of skilled workers is only a problem where there is an actual labor shortage, and that a labor shortage only exists in a few regions, such as sub-Saharan Africa, Central America, and the Caribbean.<sup>14</sup> In South Asia and Latin America, where adequate numbers of workers exist, the emigration of skilled and excess labor does not hinder development.<sup>15</sup> In South Asia, for example, unemployment rates have ranged from eleven to thirty-eight percent.<sup>16</sup> It is difficult to argue that emigration of unemployed workers hurts development when these workers were not contributing to the development of the country before they left.

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10. *See id.* at 137.

11. *See id.* at 136.

12. *See id.*

13. *See id.*

14. *See id.* at 138.

15. *See id.*

16. *See id.* at 138-39.

Moreover, while it is true that most migrants do not learn new trades or skills, a small percentage do. One study estimates that twenty-five to thirty-three percent of Pakistani, Thai, and Filipino migrants acquired new skills abroad.<sup>17</sup> Upon their return home, these migrants have the potential to contribute to further development.

Proponents of the positive position also believe that remittances have a positive impact. Studies show that remittances are not spent frivolously but are instead used to facilitate development. For example, in sub-Saharan Africa remittances are spent on education and agricultural equipment.<sup>18</sup> Remittances also allow recipients to hire employees, freeing them up to pursue other entrepreneurial activities.<sup>19</sup>

Furthermore, the earlier belief that remittances created inflation and led to an increased dependence on imports is now being discounted as a misreading of how southern economies actually work.<sup>20</sup> Remittances are now believed to serve several important functions in developing economies. First, remittances bring with them secondary or multiplier effects that create local demand and stimulate local business development.<sup>21</sup> Second, even though much of the remittances is spent on consumption,<sup>22</sup> each transaction has secondary consequences as money changes hands several times through, for example, the placement of orders, payment of salaries, and purchase of raw materials.<sup>23</sup> Third, remittances saved in banks or insurance companies allow these institutions to make money by lending their depositors' money.<sup>24</sup> This money can then be used by entrepreneurs to finance projects that lead to growth. In Bangladesh, for example, the multiplier effect from the remittances of 200,000 emigrants was responsible for the creation of an estimated 570,000 jobs.<sup>25</sup> Additionally, there are parallel remittances, remittances that are unknown or unofficial or consist of non-monetary transfers that are estimated to be two to ten times greater than the officially reported flows.<sup>26</sup>

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17. *See id.*

18. *See id.*

19. *Id.*

20. *See id.*

21. *See id.*

22. *But see* RICHARD H. ADAMS, JR., THE EFFECTS OF INTERNATIONAL REMITTANCES ON POVERTY, INEQUALITY, AND DEVELOPMENT IN RURAL EGYPT 75 (Int'l Food Pol'y Res. Inst., Res. Rep. 86, 1991).

23. *See* Heremele, *supra* note 1, at 139.

24. *See id.*

25. *See id.*

26. *See id.*

The third position on whether emigration contributes to development attempts to bridge the gap between the negative and positive positions. This position argues that the amount emigration contributes to development depends on the time frame being considered. The use of remittances varies depending on whether the migrant returns home or remains abroad. While the migrant is abroad, remittances are likely to be used for unproductive purposes, such as land purchases and savings. However, upon his or her return home, the migrant uses these remittances in ways that create multiplier effects, such as construction or business. According to Papademetriou,

[t]he possibility of return migration having a positive developmental impact . . . is tied directly to two processes: first, the *permanent* return of successful migrants and, second, the success of sending societies in taking at least the first tentative steps toward making the structural social and economic adjustments which are the sine qua non of sustained development.<sup>27</sup>

In summary, whether emigration has a negative or positive impact on development depends on the time period considered. In the short-term, it appears that negative effects dominate; while, in the long term, positive effects, largely associated with return migration, such as remittances, skill acquisition, and higher agricultural productivity, will likely lead to increased development<sup>28</sup> and a proportional decrease in poverty.

## II. THE REMITTANCE TREND

Having reviewed the three theories as to whether emigration has a positive effect on development, this paper will now specifically examine remittances. It will first examine the general trend of increasing remittance flows worldwide and then examine data on individual developing countries where remittance inflows, while not increasing in every country, still represent a significant revenue stream that countries cannot ignore or neglect.

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27. Demetrios Papademetriou, *Migration and Development: The Unsettled Relationship*, in THE UNSETTLED RELATIONSHIP: LABOR MIGRATION & ECON. DEV. 213, 215 (Demetrios G. Papademetriou & Philip L. Martin, eds., 1991).

28. See Heremele, *supra* note 1, at 140.

Remittance flows worldwide are substantial. In 1989, the total value of remittance inflows worldwide was estimated to be \$65.6 billion,<sup>29</sup> compared to \$43.3 billion in 1980.<sup>30</sup> To illustrate the magnitude of remittances, official development assistance in 1988 totaled \$51 billion; from 1982 through 1984, the annual average value of trade in coffee (the most important non-oil primary commodity) was \$9 billion.<sup>31</sup> As of 1989, the value of remittances was second only to the value of the crude oil trade.<sup>32</sup> Furthermore, remittance inflows constitute a significant portion of the total value of world trade in services.<sup>33</sup>

While worldwide data on remittances is useful when examining their overall magnitude, because the focus of this paper is on developing countries, which are more likely to be labor-exporting countries,<sup>34</sup> it is helpful to focus on more specific data relating to developing countries.<sup>35</sup> As a result of the surge in international migration in recent decades, labor exporting countries have experienced an unprecedented increase in financial inflows. In an International Monetary Fund study of thirty-eight labor-exporting countries, worker remittances increased more than fivefold from 1969 to 1990—from \$5.6 billion to \$33.8 billion.<sup>36</sup> In a World Bank study on remittance flows between countries in the North and the South, remittances increased from \$21 billion in 1985 to \$36 billion in 1990.<sup>37</sup>

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29. SHARON STANTON RUSSELL & MICHAEL S. TEITELBAUM, *INTERNATIONAL MIGRATION AND INTERNATIONAL TRADE I* (World Bank, Discussion Paper No. 160, 1992). It should be noted that the principle source of data calculating the worldwide value of remittance inflows is the International Monetary Fund's Balance of Payments Statistics Yearbook. *Id.* at 29. Collection of data for this publication is complicated by several factors, including: 1) the fact that data does not exist for many countries; 2) differences in the way countries record remittance data; 3) reporting requirements vary across countries; and 4) the fact that only a portion of remittance inflows are processed through official channels, many remittances circumscribe the bureaucracy. *Id.* Furthermore, to reduce confusion associated with various definitions of remittance and how the worldwide figures are calculated, the worldwide remittance data contained in this paper is comprised of data gathered on: 1) "worker remittances," meaning the "value of transfers from workers abroad for more than one year;" 2) "migrant transfers," meaning "the flow of goods and changes in financial assets resulting from migration;" and 3) "labor income," meaning "the income of migrants working abroad for less than one year." *Id.* at 29-30.

30. *See id.* at 29.

31. *See id.* at 1.

32. *See id.* at 29.

33. *See id.* Remittances constituted 8 and one-half % of the \$770 billion service sector in 1990. *See id.* at 1 n.2.

34. *See* Tomas Hammar & Kristof Tamas, *Why Do People Go or Stay?*, in *INTERNATIONAL MIGRATION, IMMOBILITY & DEVELOPMENT I*, 1-11 (Tomas Hammar et al. eds., 1997).

35. IBRAHIM A. ELBADAWI & ROBERT DE REZENDE ROCHA, *DETERMINANTS OF EXPATRIATE WORKERS' REMITTANCES IN NORTH AFRICA & EUROPE I* (World Bank Working Papers, Working Paper No. 1038, 1992).

36. *See id.*

37. *See* Heremele, *supra* note 1, at 140.

Data on individual countries in various regions also reveal the significance of remittance inflows. In 1980, for example, remittances to Tunisia accounted for 3.6 percent of the value of Gross Domestic Product (GDP), while, in 1989, they accounted for 4.8 percent.<sup>38</sup> When the value of remittances is considered in relation to imports and exports, their importance to the economies of labor-sending countries is even more evident.<sup>39</sup> In 1989, remittance inflows to Tunisia were 16.6 percent of the value of merchandise exports and 11.8 percent of the value of merchandise imports.<sup>40</sup> In India, remittances as a percent value of GDP declined from 1.6 percent in 1980 to one percent in 1989,<sup>41</sup> but the total dollar value of remittances increased from \$134 million from 1972 to 1973, to a peak of \$2.725 billion from 1987 to 1988.<sup>42</sup> While remittances declined since the 1987 to 1988 period to \$2.297 billion in 1989 to 1990,<sup>43</sup> their share of the value of merchandise exports and imports in India was still significant. In 1989, remittances accounted for 23.1 percent of the value of merchandise exports and 15.6 percent of the value of merchandise imports.<sup>44</sup> Finally, as the last and perhaps most striking example, there is Lesotho. In 1989, remittances were 169.6 percent of the value of GDP, 1,159.2 percent of the value of merchandise exports, and 135.4 percent of the value of merchandise imports.<sup>45</sup>

As mentioned earlier, parallel or unofficial remittances account for a substantial portion of overall remittances and the data presented above are likely to under-represent the total volume of remittances to developing countries. Several reasons for these parallel remittances exist. One major reason is that because remittances are private transfers, many remittances are made through informal channels and are never officially recorded.<sup>46</sup> Estimates on these informal "leakages" vary. For example, from 1980 to 1985 in the Republic of Korea, informal remittances as a percentage of total remittances were estimated to be eight percent, while in 1982, informal leakages in the Philippines were an

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38. Russell & Teitelbaum, *supra* note 29, at 53.

39. *See id.* at 31.

40. *Id.* at 54-55.

41. *Id.* at 53.

42. DEEPAK NAYYAR, *MIGRATION, REMITTANCES & CAPITAL FLOWS: THE INDIAN EXPERIENCE* 46 (1994).

43. *Id.*

44. Russell & Teitelbaum, *supra* note 29, at 54-55.

45. *Id.* at 53-55.

46. *See* PREMACHANDRA ATHUKORALA, *THE USE OF MIGRANT REMITTANCES IN DEVELOPMENT: LESSONS FROM THE ASIAN EXPERIENCE* 5 (La Trobe University, Economics and Commerce Discussion Paper No. 23/90, 1990); Russell & Teitelbaum, *supra* note 29, at 29.

estimated sixty percent of total remittances.<sup>47</sup> Another reason that the figures are low is that migrants, upon their return home, usually bring cash and goods with them that go unreported.<sup>48</sup>

As globalization and population demographics play out on the world stage, one result will likely be an increase in the levels of emigration. As Golini and others note,

[t]he large growth of the [less developed countries'] population[s], especially the urban population[s], a likely excess of labour, reduced access to international aid and the benefits of trade, the persistence or worsening of North-South inequalities and a fuller understanding of the situation on the part of the South's population could bring the South strong social and political turbulence and widespread moves to emigrate in the search for better living conditions. . . .<sup>49</sup>

As emigration increases, so too will remittances; not surprisingly, the remittance trend between countries in the North and the South appears to be increasing. In some countries, such as India, the overall remittance trend has decreased somewhat in recent years; while in others, such as Lesotho, the trend is still upward. However, even in countries where the trend is decreasing, the importance of remittances cannot be discounted. Remittances are one form of income for those in developing countries and the governments of these countries should strive for policies that encourage both the formal channeling and the wise use of these inflows to alleviate poverty.

### III. GOVERNMENT POLICIES TO INFLUENCE REMITTANCES

Remittances are important to developing countries for several reasons. Remittances make a contribution toward improving the balance of payments. They also help to expand the internal market by increasing the demand for domestically produced goods and services, which leads to fuller employment.<sup>50</sup>

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47. ATHUKORALA, *supra* note 46, at 6.

48. *Id.* at 5.

49. Antonio Golini et al., *Population Vitality and Decline: The North-South Contrast*, in *THE CHANGING COURSE OF INTERNATIONAL MIGRATION* 32 (OECD ed., 1993).

50. See FERNANDO L. ASCENCIO, *BRINGING IT BACK HOME: REMITTANCES TO MEXICO FROM MIGRANT WORKERS IN THE UNITED STATES I* (Anibal Yáñez trans., 1993).

Furthermore, when deposited in banks and other institutions, remittances provide a readily available source of investment capital.<sup>51</sup> Lastly, remittances provide an important source of household income for emigrants' families remaining in rural and urban areas.<sup>52</sup>

For these reasons, developing countries should strive to implement policies that encourage both the formal channeling and the wise use of remittance inflows to alleviate poverty. These policies take two forms: the first tries to maximize remittance inflows; the second tries to influence the way remittances are used.<sup>53</sup> Thus, governments are not only concerned with attracting the maximum amount of remittances into their countries but also with directing these remittances through formal channels to maximize the benefits for the country as a whole.<sup>54</sup> This section will discuss the factors that influence the amount of remittance inflows, examine policies to maximize inflows, and, finally, consider policies to influence the use of remittances within the country.

#### *A. Factors that Influence Remittance Inflows*

There are several factors that influence remittance inflows to developing countries. The first factor is the number of workers abroad.<sup>55</sup> There is a positive correlation between the number of migrant workers abroad and the amount of remittances inflows.<sup>56</sup> The second factor is the strength of the ties between the worker and his or her home country.<sup>57</sup> This factor has two components. The longer workers are away from home, the weaker the ties with their country become and, consequently, the lower the remittance flows are on

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51. *See id.*

52. *See id.*

In countries with significant emigration, most migrant remittances are used to pay for basic necessities and little goes to productive investment. But remittances have great potential as an investment resource, particularly in the migrant-sending communities to which they are sent. . . . Migrant remittances could be used to help capitalize national or regional development banks serving small businesses. By voluntarily pooling their savings with other financial resources, migrants could maximize their returns and at the same time invest in the development of their homelands.

Comm'n for the Study of Int'l Migration and Coop. Econ. Dev., *Immigration and Economic Development*, in THE UNSETTLED RELATIONSHIP: LABOR MIGRATION & ECONOMIC DEVELOPMENT 221, 233 (Demetrios G. Papademetriou & Philip L. Martin, eds., 1991).

53. *See* ATHUKORALA, *supra* note 46, at 1-2.

54. *See id.* at 5.

55. *See* ELBADAWI & ROCHA, *supra* note 35, at 29-30; ASCENCIO, *supra* note 50, at 11.

56. *See* ELBADAWI & ROCHA, *supra* note 35, at 29-30.

57. *See id.* at 30.

average.<sup>58</sup> Similarly, the greater the number of females in the migrant population, the lower the remittances are on average.<sup>59</sup> The third factor is the elasticity of real income in the host country.<sup>60</sup> Finally, the fourth factor includes macroeconomic and portfolio concerns such as the relative rates of return in the country of origin, relative prices, and economic uncertainty.<sup>61</sup> In terms of the macroeconomic climate, a rise in black market premium (defined as the difference between the black market exchange rate and the official exchange rate) by ten percent results in a decline in official remittances by three percent, according to a study of six major labor-exporting countries in North Africa and Europe.<sup>62</sup> Furthermore, the domestic rate of inflation also has a significant negative effect on the flow of remittances.<sup>63</sup> Economies that are weak or unstable discourage emigrant remittances.

### *B. Policies to Maximize Remittance Inflows*

Before considering specific policies, it is important for a country to have its economic house in order. This might be difficult for many developing countries, but is an essential prerequisite to maximize the benefits from particularized policies aimed at maximizing remittance inflows. Because uncertain macroeconomic conditions—such as high black market premiums, unfavorable exchange rates, and inflation—can have negative impacts on remittance inflows, they must be corrected before maximization policies are implemented.<sup>64</sup>

One way developing countries try to increase inflows is to require mandatory remittances by those working abroad. The Philippine government, for example, through Executive Order No. 857 (1982), required workers employed overseas to remit at least seventy percent of their monthly salaries through national banks.<sup>65</sup> Proof of compliance with this order was required before the worker's annual passport could be renewed.<sup>66</sup> Nevertheless, according to the available data,

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58. *See id.*

59. *See id.*

60. *See id.*

61. *See id.* at 6, 30.

62. *See id.* at 18-19, 30.

63. *See id.* at 31. "A high and variable inflation is a discouraging signal for investment and hence it leads to a deceleration of total remittances into the labor-exporting country." *Id.*

64. *See id.*

65. ATHUKORALA, *supra* note 46, at 12.

66. *Id.*

remittance rates have continually fallen short of the seventy percent requirement.<sup>67</sup>

There are several reasons for this shortfall. First, because the Philippine Peso was highly overvalued, the exchange of remittances into Pesos at the official exchange rate was accompanied by, what was effectively, a high tax.<sup>68</sup> As Athukorala notes, "This coupled with high bank charges associated with remittances through banking channels, negative interest rate on domestic savings, and economic uncertainty associated with domestic political instability induced workers to violate the requirement."<sup>69</sup> In addition, the government was unable to control workers who found employment abroad through unofficial channels—accounting for sixty percent of the Philippine workers abroad.<sup>70</sup>

While the mandatory worker remittance scheme used in the Philippines was unsuccessful, Korea has been consistently able to get its workers abroad to remit over ninety percent of their income.<sup>71</sup> The Korean government works closely with Korean companies through its program called "project package," whereby the government assists Korean companies in winning job contracts abroad.<sup>72</sup> In return, the companies directly deposit a portion of their workers' salaries into Korean banks.<sup>73</sup> Furthermore, the Korean government usually does not recruit workers to stay abroad for periods exceeding one year and, therefore, is able to keep worker ties to the country strong, further promoting maximum remittance inflows.<sup>74</sup>

Given the largely private nature of remittances, a more attractive way for governments to increase inflows is through incentive schemes. Perhaps the most widely used incentive scheme has been to allow workers to deposit remittances in repatriable foreign currency accounts with domestic banks.<sup>75</sup> These accounts allow workers to deposit funds in banks located in their country of origin with the assurance that they will be able to withdraw the funds at their discretion.<sup>76</sup> The decision by workers to utilize these accounts, however, is to a large extent dependent on the interest rate on these deposits as compared with interest rates in

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67. *Id.*

68. *Id.*

69. *Id.*

70. *See id.*

71. *See id.* at 12.

72. *Id.*

73. *Id.* at 13.

74. *See id.*

75. *Id.*

76. *See id.*

world capital markets.<sup>77</sup> Moreover, repatriable foreign currency accounts are used only by professional and highly skilled workers who earn relatively higher incomes and have the means to assess investment opportunities and transfer excess income internationally.<sup>78</sup>

Another available incentive-based policy is to offer premium exchange rates.<sup>79</sup> In 1974, Bangladesh began an incentive program that allowed migrant workers to sell their foreign exchange earnings to importers through daily auctions held by the national banks.<sup>80</sup> Under this scheme, importers are able to use the foreign exchange they have purchased to import certain commodities regulated by import control authorities.<sup>81</sup> The downside to this import-linked incentive scheme is that it remains attractive only so long as the government maintains a restrictive trade and payments regime.<sup>82</sup>

A third incentive, used by Pakistan, is the Foreign Exchange Bearer Certificate, where the government bank issues certificates in return for foreign currency payments.<sup>83</sup> These certificates carry an interest rate that is approximately two percent above the Euro deposit rate, and they are redeemable in foreign or domestic currency at a premium of eight to fifteen percent above the official exchange rate.<sup>84</sup>

Similarly, Bangladesh has issued development bonds, which carry a higher interest rate than domestic bank deposits, to emigrant workers in return for foreign currency. Bangladesh has also introduced a new life insurance

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77. *See id.* at 15. Athukorala emphasizes that

In the Indian context, Nayar has questioned the policy of maintaining interest rates of foreign currency accounts at a level higher than the rates in international capital markets on the ground that "there is no reason why India should borrow from non-resident citizens or non-citizens of Indian origin at prices higher than those in international capital markets." This criticism, however, overlooks the point that given the rather tight credit conditions in international capital markets following the onset of the debt crisis, enticing country's own citizens to remit foreign exchange may be a more effective (and perhaps more economical) way of mobilizing foreign finance. Also, this option has the added advantage that domestic lending (through overdraft facilities) related to these accounts may stimulate domestic economic activity.

*Id.* at 15-16. (citations omitted).

78. *See id.* at 16.

79. *Id.* at 18.

80. *Id.*

81. *Id.*

82. *See id.* at 19.

83. *Id.*

84. *Id.*

purchasing scheme, under which emigrants can purchase life insurance by paying a lump-sum premium in foreign currency.<sup>85</sup>

*C. Policies to Influence the Use of Remittances*

In Asia, the productive use of remittances has been given much less attention than policies to attract remittances.<sup>86</sup> However, due to the large numbers of migrants returning home after the economic decline in the Middle East, making productive use of the remittances has become a higher priority for Asian countries.<sup>87</sup> There are three types of policies these countries are pursuing: permitting migrant workers to import machinery and equipment at a lower cost, business training, and providing returning migrants an incentive to engage in entrepreneurial enterprises.<sup>88</sup>

Both Pakistan and India have programs that provide for favorable treatment of returning migrants who wish to establish industry.<sup>89</sup> Under Pakistan's Non-Repatriable Investment Scheme, migrant workers, returning either permanently or temporarily, can import machinery and equipment at lower import duties.<sup>90</sup> Rates of duty vary depending on the degree of industrialization in the area where the equipment will be utilized.<sup>91</sup> Lower import duties are charged on projects in relatively undeveloped areas.<sup>92</sup> This scheme has met with limited success, and between 1977 to 1982, the total approved investment under this program accounted for only three percent of total official remittance inflows to Pakistan.<sup>93</sup>

Another Pakistani program allows migrant workers to invest in export processing zones to take advantage of duty-free imports on machinery and raw material imports.<sup>94</sup> As of 1985, however, only seven projects involving migrant workers under this scheme had been established.<sup>95</sup>

By contrast, in India, migrant workers returning home permanently and wishing to establish a new industrial unit or take part in the expansion of an

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85. *See id.* at 20.

86. *Id.* at 23.

87. *See id.*

88. *Id.* at 23-24 (footnote omitted).

89. *See id.* at 24.

90. *Id.*

91. *Id.*

92. *Id.*

93. *See id.*

94. *Id.*

95. *Id.*

existing one are granted preferential access to capital goods and raw material imports.<sup>96</sup>

In Egypt, seventy-three percent of expenditures by returning migrants went toward the purchase of agricultural or building land.<sup>97</sup> To channel some of these investments away from land and into, for instance, agricultural productivity, the government will need to make the private rates of return on these investments more attractive by, for instance, continuing to raise its price support level for government supported crops like cotton, wheat, and rice. Adams notes,

Once the private rates of return on these crops become more favorable, peasant migrants are likely to begin investing a larger share of their remittances monies in elements of the new agricultural technology, such as high-yielding seeds, fertilizers, and agricultural equipment. To the extent that such investment increases the incomes of peasant farmers, it may well provide an economic stimulus for other sectors of the rural, nonfarm economy. As the incomes of peasant farmers rise, they will have more to spend on health service and transport activities. The expansion of these and similar locally based activities could well provide a broad economic stimulus for developing rural Egypt from the local level up.<sup>98</sup>

Based on this example, commodity price support schemes appear to hold great potential for developing countries exploring ways to influence remittance use and modernize their agricultural base.

Still other policies are available to influence the use of remittances. In early 1986, Korea established an experimental program to retrain unemployed returning migrant workers in new skills so they could work in new industries or establish their own businesses.<sup>99</sup> By mid-1986 approximately 4,000 workers were taking part in the program.<sup>100</sup> The Bangkok Bank in Thailand offers an advisory and investment service for returning migrant-worker customers and also offers supplementary loans.<sup>101</sup> This program has met with limited success.<sup>102</sup> The not-

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96. *Id.*

97. *See ADAMS, supra* note 22, at 75.

98. *See id.* at 76.

99. *See ATHUKORALA, supra* note 46, at 24-25.

100. *Id.* at 25.

101. *Id.*

for-profit Overseas Pakistani Foundation offers similar investment services and assists returning migrants in obtaining business development aid from various government agencies.<sup>103</sup> In the Philippines, the Overseas Employment Agency and the International Labour Organization have established centers in high-migration regions, which offer instruction in small business management, financial support for return migrants and their families, and other informational services.<sup>104</sup>

Sri Lanka and the Philippines have both established programs that provide returning migrants who wish to launch new business enterprises with management training and loans.<sup>105</sup> Several valuable insights can be gained from the Sri Lankan entrepreneurship development program. First, migrants with lower skill levels are less suitable for guided orientation programs of this nature because they have fewer savings, lower levels of educational achievement, and a preference to invest in cottage industries that do not require formal training in modern business practices.<sup>106</sup> Second, low risk tolerance and even inadequate savings can affect those with higher skill levels and might discourage them from individually pursuing business ventures; therefore, a pooling of resources might be a more effective way to encourage business development.<sup>107</sup> Third, even though the emigrants take a training course, it remains difficult for them to identify opportunities to start up and maintain successful businesses. Therefore, they will need guidance at the early stages of their entrepreneurial efforts from program instructors.<sup>108</sup> Finally, for programs like this to have a positive impact on the countries' economy, it is important that the overall economy value tangible and tradeable goods, as opposed to services and other nontradeable activities.<sup>109</sup>

#### CONCLUSION

The purpose of this paper was to highlight some of the representative remittance trends and survey some policies and projects that various countries have implemented to take advantage of remittances. Some have been more

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102. *See id.*

103. *Id.*

104. *Id.* (citations omitted)

105. *See id.* at 25, 27.

106. *Id.* at 26.

107. *Id.*

108. *Id.* at 27.

109. *Id.*

successful than others. Countries should be aware of, evaluate, and learn from the successes and failures of other countries when designing and implementing remittance policies of their own.

While this paper focused on remittances, developing countries should also pursue policies that encourage return migration with remittance policies because the two are inherently linked.<sup>110</sup>

Remittances are only one factor in the complex array of factors associated with the development of less developed countries, but they are a significant source of income for those with family members abroad, especially those living in impoverished rural areas. While, on average, remittances will likely never account for a large percentage of the capital investment needed to raise the living standards of those in less developed countries, the trends in remittance inflows indicate that policies to maximize remittances and channel them into productive uses should be seriously considered, especially by developing countries with significant numbers of workers abroad.

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110. "These are the areas where more research and most policy initiatives must focus." Papademetriou, *supra* note 27, at 216.