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# ENHANCING WORKERS' REMITTANCES FOR DEVELOPMENT IN THE MEDITERRANEAN PARTNER COUNTRIES

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**CARIM Analytic and Synthetic Notes 2008/01**

*Demographic and Economic Module*

**Cooperation project on the social integration  
of immigrants, migration, and the movement  
of persons**

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**CARIM**  
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**Analytic and Synthetic Notes – Demographic and Economic Module**  
**CARIM-AS 2008/01**

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**in the Mediterranean Partner Countries**

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The Euro-Mediterranean Consortium for Applied Research on International Migration (CARIM) was created in February 2004 and has been financed by the European Commission. Until January 2007, it referred to part C - “*cooperation related to the social integration of immigrants issue, migration and free circulation of persons*” of the MEDA programme, i.e. the main financial instrument of the European Union to establish the Euro-Mediterranean Partnership. Since February 2007, CARIM has been funded as part of the AENEAS programme for technical and financial assistance to third countries in the areas of migration and asylum. The latter programme establishes a link between the external objectives of the European Union’s migration policy and its development policy. AENEAS aims at providing third countries with the assistance necessary to achieve, at different levels, a better management of migrant flows.

Within this framework, CARIM aims, in an academic perspective, to observe, analyse, and predict migration in the North African and the Eastern Mediterranean Region (hereafter Region).

CARIM is composed of a coordinating unit established at the Robert Schuman Centre for Advanced Studies (RSCAS) of the European University Institute (EUI, Florence), and a network of scientific correspondents based in the 12 countries observed by CARIM: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, Syria, Tunisia, Turkey and, since February 2007, also Libya and Mauritania. All are studied as origin, transit and immigration countries. External experts from the European Union and countries of the Region also contribute to CARIM activities.

The CARIM carries out the following activities:

- Mediterranean migration database;
- Research and publications;
- Meetings of academics;
- Meetings between experts and policy makers;
- Early warning system.

The activities of CARIM cover three aspects of international migration in the Region: economic and demographic, legal, and socio-political.

Results of the above activities are made available for public consultation through the website of the project: [www.carim.org](http://www.carim.org)

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## **Abstract**

The rationale of this paper lies in the fact that the areas of emigration are either generally deprived in terms of basic infrastructures, roads, markets, credit and technologies, or the infrastructure can be present but there is a lack of entrepreneurial spirit, weak institutions, and a lack of knowledge about the investments opportunities which divert the savings into non-productive consumptions or, at best, in the construction sector. Therefore, often the areas of emigration face a situation of capital-rich underdevelopment, i.e. three-floor houses equipped with all kind of electronic appliances along non-paved roads. However, there are examples of practices at the local level, stimulated by the families left behind, the diaspora or by external agencies that successfully attempt to mobilize these savings for productive purposes. The paper will outline some of these practices and highlight the “success” factors that lie at their foundation with the aim to provide the elements for replicability in other areas and provide a tool for policy makers, donors and civil society organizations interested in engaging in this field.

“As they elevate a family’s standard of living, contribute to business formation, and lead to community improvements, [remittances] represent a tangible accomplishment of which migrants can be justly proud ... The way for policy makers to encourage productive investment is not to harangue migrants about their excessive consumption or to attempt to change their micro-level behavior. Rather, the best way is to pursue macroeconomic policies that yield a stable and propitious investment climate and to make expenditures on infrastructures [so as to] ... make investments an attractive, profitable proposition”. Durand et al. (1996: 261).

## A. INTRODUCTION

The growing amount of workers' remittances flows from industrialized to developing countries occurred during the last decade has stimulated an intense debate on how to improve their productive utilization and avoid they fall in a vacuum.<sup>1</sup>

In effect, while workers' remittances role for poverty alleviation and human capital development through expenditures in health and education is undisputed in the literature, they are often criticized for having a limited multiplier effect on the local economy and for increasing instead households' expenditures in imported goods, situation of rent-seeking and moral hazard, Dutch disease, or creating inflationary pressures on the local real estate market. Beyond doubt, workers' remittances cannot be compared to other capital flows and hence are not "manna from heaven"<sup>2</sup>, on the contrary their presence is a sign of development failure. However, they should not either be considered the source of underdevelopment.<sup>3</sup>

To address the issue of stimulating remittances for a more "productive" use, and avoid a situation of *capital-rich underdevelopment*<sup>4</sup> [i.e. the presence of large unutilized savings in depressed areas of migration] has become a priority for migrants sending countries governments, international development aid agencies and Ngos working on migration-related development issues.<sup>5</sup>

Being a new area in development aid policies and international cooperation, and in which little is known in terms of the effectiveness of ongoing programs, there are several risks associated with this. Scholarly research has demonstrated that migration is a multidimensional phenomenon behind which there are cultural and social aspects [i.e. altruism, social ties and social stratifications] and not only economic rationales [return from investments, insurance, etc.]. Also, that the migrant community context of origin [institutional settings, structural obstacles, lack of credit mechanisms] influences the utilization patterns of remittances as much as the conditions in the host country [i.e. the level of social and financial inclusion, the length of the migration project, etc.].

Therefore, before setting any blue print manual on how to increase the development efficiency of remittances in migrant sending countries it would be more appropriate to assess carefully the various variables that affect the remitters' behaviour and their propensity to invest.

In the Southern and Eastern Mediterranean countries a comprehensive study on the main migration-remittances corridors from the EU has been carried out in 2006.<sup>6</sup> One of the findings of this study was that Maghrebian migrants [originating from Algeria, Morocco and Tunisia] are particularly attached to the home country and manifest this attachment with investments in real estates [for both leisure and for improving the habitat conditions of the family left behind]. Very little is invested in productive activities. It is estimated that only about 5 per cent of the money sent home are used for productive purposes in a family enterprises, usually in the service sectors with very low value [petit taxi or café], and that only some of those with a medium-high level of education, which are still the minority group, are risking their savings in high value sectors such as IT or finance.

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<sup>1</sup> Ratha, 2003.

<sup>2</sup> Fajnzylber Pablo and J. Humberto López, 2007.

<sup>3</sup> De Vasconcelos, 2003.

<sup>4</sup> Ballard, 2003.

<sup>5</sup> The EU is not exception. In the Aeneas Programme the EC has allocated funds –although a very small part compared to those fighting illegal migration- for promoting development projects leveraging remittances.

<sup>6</sup> European Investment Bank, 2006.

Apparently, the situation depicted in the Southern and Eastern Mediterranean countries areas of emigration is a typical situation of capital-rich underdevelopment [three-floor houses besides non-paved roads] in which the link between remittances and development is still “missing”.<sup>7</sup>

However, there are also examples of collective and individual investments for social and economic development that are successful and that can be source of inspirations for policy makers, international aid agencies, donors and governments engaged in co-development policies and projects in this macro-region. From these existing and ongoing practices some lessons can be learnt to tap the enormous potential of migrant workers’ remittances.

The analysis of the practices stimulating a more productive use of remittances has revealed various typologies of projects and actors at the local and transnational level. There are at least five different types of actors that took the lead in promoting these practices: a) communities and families left-behind; b) communities and families in the foreign countries organized in home-town associations; c) international donors, multilateral agencies and aid organizations; d) credit and financial institutions; e) Ngos and local and national governments in the host country. The policies stimulating remittances in the home country are not taken into account since they fall in the domain of “engaging diaspora”, for which a separate treatment of the subject is needed.

In this background paper some examples of projects, for each of the five actors outlined above, are presented with the aim to understand the limits and potentiality for their replicability in other contexts.

The remaining three sections of the papers are organized in the following way: Section two will review the economic literature that analyzed the link between remittances and local development. Section three will present some examples of practices stimulating the productive utilization of remittances for local economic and human development, and section four will conclude highlighting the implications for the Southern and Eastern Mediterranean countries.

## **B. LINKING REMITTANCES TO LOCAL DEVELOPMENT: A REVIEW OF THE THEORY**

The literature is abundant of case studies on the microeconomic impacts of remittances and their individual and collective practices<sup>8</sup>. However, while remittances are often analyzed for their positive contribution to the balance of payments by providing much-needed foreign exchange at the national level, the wider developmental effects of remittances are far from clear.

Some have argued that the impact of remittances on local development is also strongly linked to the type of consumption that they stimulate. If remittances increase the import of foreign goods, this will not stimulate the local economy and a very limited multiplier effect will take place. If remittances increase the demand for domestic goods, then domestic production will increase and new job opportunities will be created. A typical example is remittances sent to rural areas where they will be mainly invested in farm production, but also manufacturing and services activities, therefore benefiting the whole economy<sup>9</sup>

### **a. Usages of remittances: an overview of the literature**

There is generally a strong consensus in the literature on the use of remittances. Remittances are used for the most part on food, clothing, and health care. But also on housing construction, buying land and

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<sup>7</sup> Gallina, 2005.

<sup>8</sup> Stark, 1991; Taylor, 1999; Pastor and Rogers, 1985; Massey *et al.* 1998, Taylor 1999, Orozco, 2000a, 2000b, 2003b, Mazzali *et al.*, 2002, Maimbo and Ratha 2005 for a review.

<sup>9</sup> Stalker, 2000.

cattle, consumer goods<sup>10</sup>, conspicuous purchases – such as gold and precious stones, and for goods non directly related to poverty, such as expensive wedding ceremonies enabling a raise in the social status of the family within the community. When looking at highly remittances dependent small countries, Vincent da Cruz *et al.* showed that remittances flows enabled domestic residents to increase consumption of imported goods and services well in excess of their production of good and services for export, while not generating an excessive current account deficit<sup>11</sup>. Glytsos [1993] has shown that only 4% was invested in machinery, another 4% in small shops, 63% on consumption, 22% in housing and 7% on purchase of land. This inflow of capital had a multiplier effect of 1.7 and varying according to industries: high in low tech labour intensive industries (apparel, footwear, leather, electrical machinery industries) and lower in services<sup>12</sup>.

On the one hand, analysts continue to argue that remittance income received is rarely used for 'productive purposes' but is rather spent on debt maintenance and everyday expenses creating inflationary pressure on the local economy<sup>13</sup>. On the other, scholars claim that investments by migrants are fundamental to the vitality of the receiving countries<sup>14</sup>. Increased housing activities or investments in education can have significant spillover effects on the local production system<sup>15</sup>.

In general it is estimated that only a little share of the remitted money is used for productive investments, about 5-7% of the total. Although small, these amounts must not be neglected and their untapped potential should not be underestimated. Studies on Mexico show that between 6 and 7% of remittances are used in productive investments<sup>16</sup>. If this could be generalized in other regions of the world it would imply that an annual 15 billion USD are invested in micro and small enterprises in the developing world (if the estimated informal flows are considered too).

Remittances may not be a cause of celebration for the local economy, but neither are they the cause of underdevelopment<sup>17</sup>. Also, it should be taken into account that investing remittances in productive activities does not occur overnight where basic conditions for investments are lacking. Similarly, better housing, education and the purchase of land can produce an impact on the households' local conditions by substantially increasing social and human capital. In fact, as stressed by Sørensen, the 'productive' / 'consumption' dichotomy is a dead end since investments in health care and in education improve productive capacity in the long run<sup>18</sup>. Other studies argue that unlike development aid, remittances are spent directly by the families of migrants and in this respect they are a very efficient way to raise the income of people in poor countries<sup>19</sup>.

Households that receive remittances show tangible higher standards of living. Remittances cover expenditures in health, education and are often used for improving the existing property. But often, in the villages and towns of strong emigration we found what the American economists John K. Galbraith once dubbed a situation of "private affluence and public squalor", i.e. lack of paved roads and public services among three-floor fully restored houses.

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<sup>10</sup> Martin S., 2002.

<sup>11</sup> da Cruz *et al.*, 2004, p. 8

<sup>12</sup> Glytsos, 1993.

<sup>13</sup> Newland, 2003.

<sup>14</sup> Guarnizo and Smith, 1998.

<sup>15</sup> Guarnizo and Smith, 1998.

<sup>16</sup> Orozco, 2000a.

<sup>17</sup> De Vasconcelos, 2005.

<sup>18</sup> Sørensen *et al.* 2003.

<sup>19</sup> O'Neil 2003.



The focus of remittances for productive investments can be found in Pastor and Rogers [1985], Martin [1991], Abdel-Fadil [2003], Lazaar [1996] and Gallina [2005, 2006c]. The use of remittances for productive investments depends upon the context and on the opportunity for small-scale investments and the social and financial capital needed for a new business. Lack of infrastructures, lack of access to credit and lack of a developed market can play a decisive role in the decision of investing remittances. It is generally expected that the migrants will bring new energy to investing in the local communities', and coordinate the transfer of technology and machinery and begin new enterprises with the help of the relatives back home. However, usually it ends up in a service firm with little multiplier effect on overall employment.

Some other studies have shown a positive relation between remittances and economic development. For example, an analysis on more than 6000 micro enterprises in 44 urban areas of Mexico illustrates that remittances provided more than a quarter of the badly needed capital for the initial investments -otherwise not available from credit institutions. In the Mexican States with higher rates of migration more than 40% of the invested capital in micro enterprises is associated with remittances<sup>20</sup>. Migration is responsible for roughly \$2.50 billion in additional investments in micro enterprises in urban Mexico, of which 2.03 invested in male-owned firms of the sample and the remaining \$471 million in female-owned firms. These results are much larger than previous community-level surveys and also show that the impact of migration spread well beyond the rural areas from which migrants traditionally come. Another important finding is that there is a much higher investment level among those entrepreneurs that have access to migrants' networks in the U.S. and less in those who migrated internally, showing that if small entrepreneurs would have access to credit they would invest heavily. Therefore, remittances can help overcome the capital market imperfections present in many remittances recipient countries which prevent low income entrepreneurs from getting loans and invest productively.

**Given that the potential remittances represent for implementing development and productive projects is very large the 'missing link' between these capital flows and local economic development need to be urgently addressed<sup>21</sup>.**

Furthermore, the fact that the majority of migrants are unskilled with low level of education makes it difficult to expect that investments are made in sectors in which technical and managerial knowledge is required. Yet, although the migrant may have the necessary knowledge, the success of the enterprise depends upon many other factors including social, cultural and psychological factors that hinder the mobilization of capital and favour the vicious circle of deflection of remittances into non-productive aims.

Addressing these problems represent an important challenge. In some other cases the general weakness of the institutional framework and markets has been overtaken with a collective mobilization based on communitarian solidarity.

## **b. Long Term impact**

The role of remittances in the long term is a similarly important issue for governments in both sending and receiving countries. The development through migration strategy that many countries have implemented since the 1970s, to alleviate the pressure on the internal labour market and receive important flows of foreign currency by an army of expatriated and hard working migrants, has probably come to an end. Today, migration strategies and models have changed. Family reunification weakens the ties with the "motherland" and well educated young migrants search for a better integration in the host society than dreaming about a possible return. However, the remittances decay

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<sup>20</sup> Woodruff and Zenteno, 2004.

<sup>21</sup> Gallina, 2005.

hypothesis cannot be generalised since the variables that affect the motive to remit are context specific and linked to the economic trends in both the receiving and sending countries.

Early studies on the trends in remittances flow have already indicated the correlation between the stages of the migration project and the amount of money remitted. Garson and Tapinos (1981), in their seminal work on remittances patterns in France concluded that remittances peak between three to twelve years of migration and then start to decline.<sup>22</sup> Similar conclusions are reached by Ascencio and Orozco on the Latinos communities in the United States,<sup>23</sup> and by Gallina and Sørensen in Denmark.<sup>24</sup>

The analyses of the Comoros<sup>25</sup>, Moroccan<sup>26</sup>, North African<sup>27</sup>, Mexican<sup>28</sup> diasporas, show the importance of an emerging second and third generation on the remittances flow and utilization. It appears that for some countries the great age of migration has ended. The study on the Comoro Islands has shown that clearly the changing structure of the Diaspora, with an increasingly well educated third generation, will change the level of remittances, the relationship between remittances and development policies and the relationship with the local authorities.

The study by Lahlou [2000] on the evolution of the Moroccan migration confirms this. Younger migrants, between 15 and 19, and the older, over 70 years old, have remitted money in the last five years. The younger because a stronger feeling of affection to their country and the elderly generally in preparation of a future return. But, the study also concludes that the age classes in between generally remit, therefore confirming that is not only the age variable that influences the remittances directly but the stage of the migration project, i.e. the period spent abroad. Another indication of this relationship is provided when looking at the relationship between remittances and marital stage, the engaged couples send money less often than the widows. According to Lahlou remittances are fewer by migrants with higher educational levels, due to higher rate of consumption and saving in the hosting country.<sup>29</sup> Faini [2003] with a cross-country panel study confirms this finding that migrants with a higher education, in spite of their potentially larger earnings and propensity to generate remittances, remit less because their migratory project is perceived as permanent<sup>30</sup>.

While the raise of a “second generation” in the host country may led to a decrease in the remittances flow, the establishment of new communities, such as the Maghrebians migrants in Spain and Italy can refresh the present and future potential for remittances transfers (de Haas, 2005). However, the migration patterns in Spain and Italy show a tendency to family reunification which in turn may reduce the ties with the home country and even reduce the frequency of returns at home for holidays.<sup>31</sup> This may be also explained by the fact that in countries of new immigration (such as Spain and Italy) “younger” migrant communities have a tendency to remit more in an earlier stage of migration to pay back the debt contracted before departure (their migration project is generally much more expensive than that of the migrants in the 1970s and it can take up to two years to repay the debt). Moreover, the intention to settle in the host society is an obliged choice compared to the situation of the guest-workers of the seventies<sup>32</sup>. This, in turn may reduce the connection with the

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<sup>22</sup> Garson, J.P and G. Tapinos, 1981.

<sup>23</sup> Ascencio, 2000; Orozco, 2000a.

<sup>24</sup> FCC, 2004.

<sup>25</sup> de Cruz *et al.*, 2004.

<sup>26</sup> Garson and Tapinos, 1981.

<sup>27</sup> Gallina, 2005; 2006b, 2006c.

<sup>28</sup> Orozco, 2002, 2003a, 2004; Ascencio, 2004.

<sup>29</sup> Lahlou, 2000.

<sup>30</sup> Faini, 2003 in van Dalen *et al.*, 2005, p. 22.

<sup>31</sup> Gallina, 2005.

<sup>32</sup> Gallina, 2006b.

home country, through for example family reunification, and hence contribute to the decline in the amount of money remitted. Another factor to be taken into account is that younger educated people may be attracted by career opportunities that will never find in their own country.<sup>33</sup>

Therefore, for source countries governments the risk of relying on remittances can be quite high giving the changing patterns of migration and migration policies in the receiving countries. This may led to a reconsideration of development through migration strategies, while it remains a central aspect in the current debate on the relationship between remittances and co-development policies aiming to increase their multiplier and accelerator effects.

If there is a link between the flow of remittances and the stages of the migratory project, then new instruments to design macroeconomic policies and development policies aiming to foster local economic development and to recompose the migrants' population aspirations of return with the available investments opportunities need to be created. If evidences confirm this, other measures are wished to establish an institutional setting able to respond to the needs of the residents abroad and to the needs of the states to receive inflows of precious foreign currencies.

### c. Negative impact

Remittances can have possibly negative effects on the economy from several points of view:

- √ A view that considers remittances as a source of a *Dutch disease* effect in which real exchange rate may appreciate following a high flow of remittances and so penalizing non-traditional exports and hampering the development of tradable goods sector<sup>34</sup>.
- √ A view that regards remittances as leading to a situation of *capital-rich underdevelopment*, reducing productivity and labour participation of migrant households relying on remittances. Land productivity in rural areas can decrease due to moral hazard of the left behind household members<sup>35</sup>.
- √ A traditional view that considers remittances as a source provoking displacement of local jobs and income; inducing consumption spending (often on foreign imports); inflating local prices of land, housing; and food<sup>36</sup>; creating disparity; envy between recipients and non-recipients; and creating a culture of economic dependency.<sup>37</sup>

Guerin-Guengant [1996] pointed out that the increase in the purchasing power of the household with a migrant risks to: a) increase the consumption of imported goods; b) push towards the abandonment of local activities that are judged insufficiently remunerative, c) induce consumption to achieve higher social prestige and d) idealize the migration as the only possibility to escape local poverty<sup>38</sup>.

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<sup>33</sup> This changing pattern of migration that is challenging policy makers in their task to channel workers' remittances for local development is also confirmed by Mr. El Gourhani, marketing director of the Banque Populaire of Morocco: «Traditional receiving countries are reducing the transfer of money, while new migration countries are increasing it. This is quite normal since the first generation of immigrants still feels attached to the country of origin and invests money in different ways (real estate, support to the family). For the second and the third generation, born abroad, the attachment is still strong but they are mainly concerned with the life in Europe and not with a hypothetical life in Morocco». Interview by Chadia Arab at the headquarter of Banque Populaire in Casablanca, on the 5th of November 2003 for the FCC 2004 project.

<sup>34</sup> Solimano, 2003, p. 14.

<sup>35</sup> Ballard, 2003.

<sup>36</sup> Rogers, 2001.

<sup>37</sup> Vertovec, 2004, p. 40.

<sup>38</sup> Guerin-Guengant, 1996.

Therefore, negative effects of remittances effect on local production systems can be analyzed in terms of reducing productivity and abandonment of land due to increased social status, as in the case of the African village of Kayes in Mali. Azam and Gubert [2004 & 2005] and Gubert (2002; 2006) show that the wealth created by remittances makes those left behind lazy and less willing to provide for their own needs. In this study, is highlighted that moral hazard by family members left behind creates a situation in which low incomes do not make them poorer since the migrants will compensate for any shortfall in consumption due to for example bad yields. Furthermore, Azam and Gubert have demonstrated that while remittances dependent households have adopted modern agricultural tools, such as ox plough or cart, migrant households do not achieve significant higher yields in terms of the value of output for working household member than non-migrant households.<sup>39</sup>

In Morocco, a similar process took place in the oasis economy. De Haas [2006] found that migration created the possibility to have higher non-agricultural income and so “liberate” the family back home from the absolute dependence on agriculture, while simultaneously contributing to the abandonment of large agricultural areas<sup>40</sup>. The process of individualization, the disintegration of the power of the traditional community and labour shortages has undermined the willingness to carry out collective soil and water conservation measures. The neglect of agricultural infrastructure and in particular of the vital irrigation system has provoked increasing land degradation. Nevertheless, under some circumstances money has been invested in the development of ‘modern’ irrigated agriculture, although this in turn has provoked sand encroachment and scarcity of ground and surface waters (due to mechanized pumping).

Remittances can also have negative effects on the local economy as for example the difficulty in stimulating the formation of capital accumulation. Notably, the flow of money in the village economy can induce the population to consume goods for augmenting their social status, instead of inducing a process of accumulation. If the goods consumed are imported the cycle can be even more vicious. The value of the investments by resident abroad or by family members left behind is usually lower in the agricultural sector and higher in the real estate, transports and restaurants-hotels, but that diminishes again in sectors as commerce, craft production and other non-farm activities. Often, as Ballard pointed out, remittances create a situation of capital rich underdevelopment with local banks having more savings than loans because requests are limited<sup>41</sup>.

Another negative aspect produced by remittances is the inflationary pressure created by the strong purchasing power of households with migrants on those households without migrants. Examples of speculation on land for constructing housing or of real estate and of building material are illustrative of how this discourages the demand by local non-migrant households. For example, in the Tunisian area of Msaken, an area of departure for many migrants, the large demand of housing from the migrants living abroad is causing a generalized rise in the prices of housing for the whole village and has resulted in the inflation of real estate prices, concentration of land tenure in the hands of families connected to migration, and increased unemployment<sup>42</sup>. According to Saad [2005] a similar phenomenon has occurred in the village of Mit Badr Halawa in Egypt, area of emigration towards France, or in the town of Nador in the North of Morocco where growth of land prices and population growth far outstrips that of surrounding provinces<sup>43</sup>.

The creation of a monetary distortion with a tendency to devalue the local currency to attract the money of the migrants and the creation of a dual currency (one for satisfying basic needs and another

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<sup>39</sup> Azam and Gubert, 2005.

<sup>40</sup> De Haas, 2006.

<sup>41</sup> Ballard, 2003.

<sup>42</sup> Fletcher 1999.

<sup>43</sup> Vermeren 2001, in Collyer, 2004, p. 35.

one for the “extras”, as in Algeria) is another negative phenomenon that can be attributed to remittances<sup>44</sup>.

This view sees the excessive consumerism practiced by households receiving remittances as inequities and dependency creating and not encouraging productive investments. However, attempts of the government to lead the use of the remittances for productive activities have often had little result<sup>45</sup>.

Furthermore, the return of the migrant corresponds often with a reinsertion in a capital or regional city and very rarely with a return to the village of origin. Only the less successful migrant will return in rural areas<sup>46</sup>. Thus, international migration induces also a pressure on internal migrations from the countryside to the main urban centres, leaving the countryside in a situation of further deprivation. As pointed out by Collyer, “the temporary nature of new migration schemes will result in significant numbers of returns and the trend towards increasing levels of rural/urban inequality may be further exacerbated<sup>47</sup>”.

It may be true that remittances do not produce optimal economic outcomes in recipient countries but neither do other flows of money if the institutions are weak and the economic incentives are poor<sup>48</sup>. Even the best equipped investors often avoid projects in developing countries, therefore is remarkable if a little share of remittances are invested by migrants and their households for productive purposes. According to de Vasconcelos, “while these flows offer vital support for millions of households, remittances cannot be equated with any kind of grassroots ‘development model’. On the contrary, these flows are symptomatic of systemic development failures afflicting millions of families across the developing world<sup>49</sup>”.

But why do investments in productive activities occur and succeed in some communities and not in others? From a structuralist point of view, a main factor is the context of reception. This has important implications for the directions of migrants’ social and economic investments. The general interpretation of the different use of remittances for local development does not consider the fact that the migrant, or the family members back home, do not necessarily have the skills and competences to use the savings in a productive way. Also, the institutional set-up –in the broad definition of infrastructure, laws, and support programs– might favour or hinder the use of remittances.

In his research on remittances and economic development in Jullundur District (India), Ballard stressed that whilst remittances provide the capital for introducing high-tech solutions (generators, mobile phones, 4x4s vehicles) to local structural problems such as lack of made-up roads, schools, hospitals, markets and so forth, such remedies merely circumvent and hence do nothing to resolve the underlying deficiencies in the local infrastructure<sup>50</sup>. Moreover as long as governments spending priorities are diverted elsewhere the prospect for making a profitable investment in the local economy will remain largely dependent on the arrival of more remittances, leading to the paradoxical situation of “capital-rich underdevelopment<sup>51</sup>”.

This situation curbs the potential of entrepreneurship present among the migrant workers staying abroad, their families, and the returnees. The entrepreneurship shown in many cases by migrant workers in the host country could not just evaporate once returned in the home country. A better

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<sup>44</sup> Garson, 1981.

<sup>45</sup> Martin S., 2001.

<sup>46</sup> Kagermeier, 1997 in Collyer, 2004, p. 35.

<sup>47</sup> Collyer, 2004, p. 35.

<sup>48</sup> De Vasconcelos, 2005.

<sup>49</sup> De Vasconcelos, 2005, p. 12.

<sup>50</sup> Ballard, 2003.

<sup>51</sup> Ballard, 2003.

explanation is that returnees or migrant workers families' entrepreneurial skills are held up by local obstacles. The strategy of the government to bypass the areas of high inflow of remittances is justified by the fact that these areas are not-poor in terms of GDP per capita and that an improvement of the local conditions would reduce the export of manpower and hence the inflow of foreign currency and so the reserves of national banks, which in turn are used to provide loans to the well-connected borrowers.

This lies at the basis of the development through migration strategy of many developing countries, and contributes largely to a situation in which the value transfer of migrant remittances is diverted to further strengthen the urban-rural dualism and reinforce the wealth and living standards of distant urban elites<sup>52</sup>. The point of view of the urban elite to divert the informal flows of remittances into formal channels can be justified by this. But for the migrant, this result is not very satisfactory and therefore the increase of the use of informal channels is a strategy to circumvent the formal nets into which the state wants to confine them<sup>53</sup>.

While it remains difficult to imagine that collective initiatives of migrant workers can take the financing of substantial investments in large infrastructures such as highways, bridges, dams, and electricity grids (and these should continue to remain largely within the scope of large international development projects or government intervention), it is worth noticing that migrants and their families left behind have self-organized the construction of temples, paved roads, electrified rural areas, dig mills, built schools and stimulated the local economy.

The factors that lie behind the success of some of these projects and policies stimulating a productive use of remittances are discussed in the following section.

### **C. NORTH-SOUTH PRACTICES IN STIMULATING THE PRODUCTIVE USE OF REMITTANCES<sup>54</sup>**

This section of the paper presents some significant international experiences in channelling worker's remittances for stimulating their productive utilization. This section is both based on informative material and studies that have analysed these experiences and on first hand information collected during field studies. Although the contextual factors may be very different, there are many lessons the Southern and Eastern Mediterranean and EU countries' governments can learn.

#### **a. Communities and families left-behind**

The first actor analysed is the family and the communities left behind. The aim of this part is to provide examples of collective mobilization and not individual projects. How do local communities collectively mobilize remittances to escape the situation of deprivation that most of the time generated the migration process?

##### *The case of "Migration & Développement" in Southern Morocco*

The collective mobilization of remittances in the Southern province of Taroudant (Morocco) has been stimulated initially by a French-Moroccan Ngo based in France. After many years of exchange and engagement by the French and Moroccan community living in France originating from this area, the local community has started to organize a local Ngo ("Migration & Développement") and a dense

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<sup>52</sup> Ballard, 2003.

<sup>53</sup> Ballard, 2003.

<sup>54</sup> The research assistance of Diana Sainz (Federico Caffè Centre, Roskilde University) in the preparation of this section is acknowledged.

network of village associations. The initial impetus from the French-Moroccan association has created the conditions for improving the infrastructures (roads and electricity). Then, the partnership with the villages of origins has spurred the creation of productive activities such as the production of olive oil, oil of argan and saffron flowers<sup>55</sup>. These projects involve about 400 families and have mobilized public and private funds for about 5 million euros. Even though not all the families in the village of origin have a member abroad able to send money, the strong participatory system created by the local NGO together with the village associations enabled that each member of the community contribute to the works to be done. This process has spurred the creation of local village associations that decide upon the allocation of the money in the various areas of intervention. Especially women benefit from the cooperatives. An interesting aspect is the limited replicability of this practice in other neighbouring villages. The success factors in this practice are:

- √ The impetus of a Moroccan émigré in France that stimulated the initial creation of the association in France and raised funds and expertise for the infrastructural projects;
- √ The presence of a professional group of women in Taroudant that engaged in the association and that were able to mobilize other international resources;
- √ The presence of a dense network of village associations where the projects are discussed and proposed for financing;
- √ The ability in stimulating traditional sectors in which women play a pivotal role (saffron and argan oil).

The association and the cooperatives of women created a “space for women”, while the village associations are mainly dominated by men. This situation has created an equilibrating factor and reduced the negative aspects of the patriarchal model that characterizes this area.

## **b. Communities and families in the foreign countries organized in home town or village associations**

Village associations and Home-Town associations are considered one of the most important tools to channel collective funds for community projects. Their appearance in the development arena has also stimulated the local authorities to take an active part in this promising contribution.

### *The case of “Gidimaxa JikkéI” of Mali’s immigrants in France*

This example of the Malians originating from the region of Kayes (mainly ethnic Soninke) living in France has been often used in the literature on remittances. The history of these organizations began with the drought in 1973-1974 in forms of solidarity aid. Then since the 1980s the organizations in France started to pursue a philanthropic approach by supporting the construction of schools, hospitals, roads trying to complement an often absent state support in the deprived areas. Then, productive projects have been put on the agenda mainly for the improvement of the agricultural sector. It is estimated that the organizations of Malians in France are responsible for 60% of the infrastructural projects in the region of Kayes and for an investment of about 5 million euros per year [i.e. about 10% of France’s annual development aid assistance to Mali].<sup>56</sup>

The groups in France collect the money, design the project and sometimes assist in the implementation of the project by sending a member of the group in the village of origin. The socio-cultural dimension of these practices is quite peculiar. The non monetary factors play an important role (the gift to the village community left behind, the status that the donation to the association in France can give to the individual migrant, etc.) and the logic of saving is also a peculiarity of some sub-

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<sup>55</sup> Gallina, 2005, 2006a, 2006b, 2006c.

<sup>56</sup> OCDE Panos, 1996, in CFSI, 2003.

Saharan cultures which use also in France the informal saving systems (*tontines*).<sup>57</sup> Also, the organizations of immigrants reproduce the same social structure and hierarchy of the village community in Mali. The chef of the village in Mali has an equivalent counterpart chosen with the same criteria in the organization in France.

The association “Gidimaxa Jikké1” was created in 1988 and comprises 3000 Malians originating from the arrondissement of Aourou in the region of Kayes. In Aourou live 45000 people in 24 villages which base their subsistence on the cultivation of cereals. The association has promoted projects in the areas of water (wells, dikes), health (vaccinations campaigns, community health centers), literacy (animation course for allowing the local population to define their needs and priorities and possible projects, training courses for women, literacy courses), productive activities such as the support to horticultural production (provision of seeds) and conservation of vegetables, and in the area of roads infrastructures (small bridges for crossing rivers during the rainy season). The association implements the project with the support of an American Ngo (Paro-Mali).<sup>58</sup>

#### *The case of Mexican Hometown Associations in the United States*

Probably the most known practice linking remittances and migration with local development in the sending country is that of the Mexican Hometown Associations (MHTAs). Hometown associations are small philanthropic groups of migrants that support a wide range of social and economic projects in the communities of their origin. These community investments, though a minor percentage of all remittances, are adding up to significant levels of money. USAID-supported research indicates that in 2002, Mexican hometown associations alone sent an estimated \$30 million to their communities in support of local projects. MHTAs are essentially grass-roots communities that exist in the US who band together to send money to their foreign hometowns for community and economic development. The MHTAs are established, for most part, by people from rural than urban areas. Those are normally founded on the basis of shared neighbourhood or colonies (residential suburb) which create a certain level of cohesiveness among the emigrant.

The most prominent MHTAs were established in the 1950s. The oldest MHTA in operation today dates back to 1965 when a wave of Mexican immigrants set down permanent roots in the USA. Migrant associations typically share the dual objective to improve the lives of their members as immigrants, and to support their communities of origin in various ways. As an “information clearinghouse” where new and old migrants meet to share experiences, the associations are able to reduce the costs and risks of migration, and increase the likelihood of success in finding and retaining work. Another important activity is to raise funds to support religious and cultural festivals back home. Through their capacity to quickly collect and generate funds, MHTAs also act as an informal “insurer” in case of emergencies (in US or Mexico). Some MHTAs are involved in financing economic development initiatives in Zacatecas, Oaxaca and Nuevo Leon.

MHTAs raise money in the United States through the organization of dances, beauty pageants, raffles, picnics, rodeos, membership dues and private donations. They contribute substantial transfers of money to Mexico. Some of the most important public works funded by MHTAs include the construction or renovation of roads, bridges, parks, churches, schools, health care clinics, sport facilities and streets. The social projects they support benefit the poor in the community of origin through. Health care clinics, childcare centres and convalescent homes for the elderly are the priorities. MHTAs also donate ambulances, medical goods, school supplies, and distribute educational grants among low-income students.

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<sup>57</sup> Reynald Blion and Véronique Verrière, Michel Rondepierre, juin 1998, in CFSI, 2003.

<sup>58</sup> CFSI, 2003.



MHTAs have three levels of institutionalization and complexity. In the first level, members of informal associations participate in the same social events and provide economic support in case of emergencies. In this sense, hypothetically there could be as many informal village networks as there are migrant communities in Mexico. The second level of organization appears when a formal leadership committee emerges and organizes the daughter community in the United States. Another path to the institutionalization of MHTAs can be initiated by the specific efforts of Mexican consulates in the United States. In this regard, the creation of the Programa de Atención a Comunidades Mexicanas en el Extranjero or PACME (Program for Mexican Communities Abroad) in 1990 should be credited for the recent creation of a large number of formal HTAs. This office was created within the Foreign Ministry and operates through the consular network in the United States<sup>59</sup>.

The third level of organization of HTAs is the federation. The federation is a coalition of HTAs from the same state in Mexico that works closely with the Program for Mexican Communities Abroad. There are currently eight state-wide federations of HTAs, based in Los Angeles. There is one federation for the states of Zacatecas, Jalisco, Sinaloa, Nayarit, and Durango; and three for the state of Oaxaca. The oldest and the best organized is the Federación de Clubes Zacatecanos del Sur de California. Mexican immigrants in Chicago have formed seven federations from the states of Zacatecas, Guerrero, Jalisco, Durango, San Luis Potosí, Guanajuato and Michoacán<sup>60</sup>.

In 1998 there were 170 MHTAs from 18 Mexican states registered with the Mexican General Consulate in Los Angeles. The states with the largest number of HTAs were in order of importance: Zacatecas (51 HTAs), Jalisco (49 HTAs), Michoacán (11 HTAs), Sinaloa (11 HTAs), Nayarit (9 HTAs), Oaxaca (8 HTAs), Puebla (5 HTAs) and Durango (4 HTAs) (Zabin and Escala, 1998, p. 9). There are at least 120 HTAs in Chicago that work with the Mexican consulate in that city<sup>61</sup>.

Mexican migrants in the US make substantial transfers of money to Mexico through HTAs. HTAs from Zacatecas committed up to \$600,000 for 56 public projects in 34 towns in 1995<sup>62</sup>. These were instrumental in the creation of a health program administered by the Ministry of Social Security in Mexico (Instituto Mexicano del Seguro Social) that provides coverage for relatives of migrants residing in the United States for a fee. In addition, based on the experience with the Borrego administration, Zacatecano leaders promoted the establishment of the (now terminated) 2x1 federal program, in which the state and the federal governments each contribute a dollar for each dollar raised by the HTAs for community development projects. In 1993 the Mexican Ministry of Social Development created the program that was later extended to other states<sup>63</sup>. The administration under President Ernesto Zedillo cancelled the federally coordinated 2x1 program. In spite of this, the program continued in Zacatecas under a new arrangement. The new elected governor, Ricardo Monreal from the opposition party PRD managed to create the 3x1 program with the participation of HTAs and the federal, state and municipal governments. As before, the three levels of government each contribute a dollar for each dollar raised by HTAs. According to the Program for Zacatecan Communities Abroad that administers the 3x1 Program, this program began in 1997 with \$300,000 dollars and one year later was managing nearly \$5 million to support 93 projects in 27 municipalities. For example the Club Tepechitlán sent money to families that were affected by a flood and later, through the Federación de Clubes Zacatecanos del Sur de California and the 2x1 Program bought a school bus and a pick up truck for the municipal government.

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<sup>59</sup> Zabin and Escala, 1998.

<sup>60</sup> Zabin and Escala, 1998, p. 9. Espinosa, 1999, p. 12 ; Goldring, 1998, in Guarnizo *et al.*, 1998; Belizaire, 2004; Marsh, 2003; Alarcón (mimeo); Zabin and Escala, 1998.

<sup>61</sup> Espinosa, 1999, p. 12.

<sup>62</sup> Goldring, 1998.

<sup>63</sup> Goldring, 1998; Smith, 1995.

Other initiatives such as the 3x1 program can be found in many other states of Mexico. The government of Jalisco supported the launching of two programs: Raza Express and the debit card Afinidad Jalisco Banamex to improve the transfer of remittances into the state. The two private financial institutions deposit a portion of each dollar sent to Jalisco into a fund Fideicomiso de Inversión Fideraza) to improve public infrastructure and to support small entrepreneurs in the state<sup>64</sup>.

The Government of Jalisco in association with the *Federación de Clubes de Jalisco* recently obtained a credit line for \$2 million dollars from the North American Development Bank (NADBANK) to encourage productive investments in Jalisco among entrepreneurs who belong to the federation. Following the example of Zacatecas, the Jalisco government and the federation are in the process of instituting a 3x1 Program.

Peguerenses residing mostly in Santa Monica, California formed *Club Pegueros* from Jalisco in 1981. The HTA evolved from a soccer team supported by Peguerenses. Their first donation was an ambulance and among many other things they provide scholarships to students in middle and high school in both the hometown and the United States. Club Pegueros also supports the education of 57 disadvantaged children in Pegueros. The club's 100 active members are very successful in raising money by organizing rodeos, and selecting the Reina del Club Pegueros whereby the girl who has collected the most money for the club regardless of her beauty is selected as the HTA's queen. Every year they also host the Baile de Gala that is attended by 500 people.

Four HTAs that are part of the *Federación de Clubes Michoacanos* in Illinois have sent more than \$650,000 dollars to pay for the construction of highways, sports facilities, day care centres, cultural centres, the reconstruction and renovation of churches and for road repairs. They have also donated money to build or improve sewage systems, to support schools, and to buy sound systems for churches and lighting for plazas<sup>65</sup>.

Since the early 1980s, Oaxaca has become a very important sending state. A very important characteristic of the Oaxacan organizations is that in addition to supporting the construction of public infrastructure and social projects, they seek to defend the human, civil and labour rights of their members in both Mexico and the United States. Oaxacan HTAs in Los Angeles carry out fundraising events throughout the year, mainly for philanthropic projects in their hometowns in Mexico. These events achieve two major purposes: they finance specific projects in the hometowns, and they promote a sense of community among compatriots by fortifying social ties.

*Comité Abasolo* was created in 1996 as a result of a specific request from the municipal authorities in their hometown in Oaxaca. The newly created association decided to fund the paved road, a three-year project that was partially funded by this association as well as by matching funds from the municipal and state governments. In total, this HTA was able to contribute \$22,000.

*Asociación San Mateo Cajonos* was created in 1989, but it was not until 1997 that they began supporting social projects for their town. They initially provided part of the funds for the pavement of some streets; later they funded a water pump; more recently they partially funded the purchase of a dump truck for community purposes. And most recently they have just bought a property on which a school will be built.

*Asociación Santa Ana del Valle* was just created at the beginning of 2000, but it has existed for a number of years as a sports league named "Raza Unida". Last year they were able to fund the purchase of a bus, which was the first one ever in their town. Later they also funded a kindergarten, and in both cases they collected funds from a list of *paisanos* either settled or recent migrants from their town to the Los Angeles area rather than through carrying out different fundraising activities.

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<sup>64</sup> Valenzuela, 1999.

<sup>65</sup> Espinosa, 1999.

Families residing mainly in the San Fernando Valley in the Los Angeles area initiated the *Club Mesillas* in 1988. There are around 450 people from the town who participate in the events they organize such as dances, raffles and rodeos. In the beginning each member donated \$100 per family to dig a well and they made an agreement with the state government. By this, they have improved the sewage system and the streets in addition to renovating the hospital and the church. They also donated a van for the municipal government and are currently raising money to build an 8-kilometer section of a highway.

The *Club Social Hermandad Jalpense* was founded in 1996 and has 30 active members. The club is currently raising \$8,000 to build “La Casa de Artes y Oficios del Niño Jalpense” through the 3x1 Program. This arts and trade school is designed to provide employment opportunities for low-income youth in the town. Other projects concern the economic support to women through cooperatives and micro-enterprises development as the bakery in community of Tuitan, the tortilleria in Palmillos, the guayaba juice company in La Colonia Obrera y Los Santiagos.<sup>66</sup>

Although these initiatives are small compared to the needs of the communities of origin, they can have an important effect on the local development, especially if they are not limited to the narrow search of prestige by limited rich and powerful elite groups of Mexican abroad and if the local governments do not patronize them politically. The factors that made the HTAs successful are:

- √ Ownership to the individuals and community. The HTAs transfer the project to the local communities once is implemented;
- √ The projects reflect a participatory definition of the real needs of the communities, even if most of the time are the HTAs in the United States that define the activities and not the whole community in Mexico;
- √ They are sustainable and do not create dependency once the activities are completed<sup>67</sup>.

#### *The case of Initiatives des femmes africaines de France et d'Europe (IFAFE)*

Originally born as an association to support the integration of newly-arrived migrants in France particularly women, today is a federation of 23 associations embarked in a variety of social and economic programs for their home countries such as supply of medicine and school equipment, rural development in the Democratic Republic of Congo, Gabon and Cameroon. The association supports also vocational training for orphans, and provide micro-credit for particularly vulnerable women engaged in farming and business<sup>68</sup>.

### **c. International donors, multilateral agencies and aid organizations**

International donors and Ngos have also contributed to the mobilization of collective remittances by stimulating projects and creating programmes facilitating the engagement of the diasporas or the local communities in productive projects.

#### *The case of USAID*

USAID, the US Government Development Agency is engaging in innovative partnership with hometown associations in Latin America to leverage even more their impact on local development

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<sup>66</sup> <http://www.jalpense.org>; Espinosa V., 1999; Valenzuela B., 1999; López *et al.*, 2001.

<sup>67</sup> IOM, 2005, p. 283.

<sup>68</sup> Ghosh, 2006, p. 76.

while engaging in efforts complementary to USAID's. Some examples from the USAID Report of this policy follow:<sup>69</sup>

- USAID LAC/RSD (Latin America and the Caribbean Bureau, Office of Regional Sustainable Development) awarded a grant to the Pan American Development Foundation (PADF) for their project in helping hometown associations make productive investments in their home communities. Current projects are underway in Mexico, Haiti and El Salvador. Much of the work involves establishing methods to leverage remittances for employment generating activities. Examples include supporting the production, processing and marketing of nostalgic agricultural products to migrants, and providing technical assistance to increase the production of other high value crops.
- USAID together with the Minister of Education of El Salvador launched ALCANCE (Alianza de Comunidades Apoyando la Niñez y su continuación en la educación), an innovative partnership to promote remittances for education in El Salvador. The program seeks to better identify the reasons that rural schoolchildren drop out of school and partially remedies those causes through a scholarship program supported by Salvadoran immigrant communities in the United States and the Salvadoran private sector. The program is managed by Pan American Development Foundation (PADF), working with Salvadoran home town communities in the US, World Vision, the Salvadoran Foundation for Educational Development (FEPADE) and Banco Agrícola. The twelve month program provides up to 2,000 small scholarships consisting of school materials and other necessities for attending school for children most in need and will provide training and other support to local schools to improve student retention in 40 rural communities in four departments.
- USAID/Haiti is supporting a partnership program with Pan American Development Foundation (PADF) and Unitransfer that would result in a \$1.00 donation for each remittance transfer fee collected by Unitransfer from a New York City pilot area. The donations would help support projects in Haiti with technical assistance provided by PADF. The program would also allow remitters to make additional donations when sending money. Last year, this partnership facilitated the reconstruction of a school in an economically depressed area. The school, located in a target area for USAID education programs, will also receive a package of USAID services to improve educational quality inside the classroom. The mission plans to expand this kind of activity and has a target of seven school reconstruction projects.
- The USAID/Haiti, Pan American Development Foundation (PADF) and Unitransfer program will use some of the proceeds from expanded remittance transfers to support health and education activities in Jamaica. USAID/Jamaica is also working with the Jamaica National Building Society Remittances program 'building bridges' to link hometown communities in US back to development projects in Jamaica. Western Union also contributes to this program.
- USAID/Colombia is supporting a local NGO in its creation of a mechanism for Colombians abroad to contribute funds to support grants for development projects in Colombia.

*The case of the International Organization for Migration (IOM) projects in Guatemala, Colombia and Africa*

Given its profile and not being a donor attaching strings to funds, IOM is probably the organization that can give the best contribution to create a transparent dialogue between diasporas, local communities, international donors and local governments on how to design and implement country-specific mechanisms that can improve the productive utilization of remittances for the development of migrant sending countries.

IOM is also engaged in projects aiming to stop illegal migration through socio-economic development. In Guatemala the project offers alternatives for rural communities which tend to

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<sup>69</sup> USAID report consulted at [www.usaid.gov](http://www.usaid.gov) on the 8-26-04.

generate irregular migration towards the US. 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.<sup>70</sup> The project consists of three platforms: a) A specific *banking service* serves as a financial bridge between the US and Guatemala; b) A *communications system* between the villagers and the migrants will be installed, based on new telecommunications and internet technology; c) A *marketing platform* for joint purchases and sales from the community to national and international markets will be developed that allows villagers to move ahead from individual trading and marketing strategies to more effective collective approaches.<sup>71</sup>

In Colombia, the project aims to create a social investment fund for the funding of productive small-scale projects for vulnerable populations, especially the internally displaced. In this project IOM can take the function of the main operators of remittances to Colombia at very low cost, or alternatively there will be the establishment of strategic alliances with ongoing operators and regional financial institutions.

Building on the experience of a previous program (Return and Reintegration of Qualified African Nationals programme, RQAN), in 2001 IOM started a “Migration for Development in Africa” (MIDA) program to support and facilitate the transfer of skills in important sectors such as health and education from the migrants to the countries of origin. The program envisages also activities for supporting small-scale enterprises development and remittances management by developing cost-savings methods and by supporting remittances related investments<sup>72</sup>. One of the aims of the program is to create a new product, the “African Diaspora Remittance Fund” which should combine investments opportunities with support to poverty alleviation activities.

#### **d. Credit and financial institutions**

Private sector intervention in this area comes as no surprise, being a business of over \$20 billion annually for money transfer operators and of a similar size for micro-credit institutions. Furthermore, being capital market imperfection a problem that affects most developing countries, micro finance institutions (MFIs) can fill the existing gap in this sector.

The role of micro credit and micro finance institutions is vital for providing capital to small and micro enterprises but often they require collaterals or interest rates that are so high to prevent many potential small entrepreneurs to apply for money. However, the experience of some MIFs linking micro credit schemes with remittances show the potential that these institutions can have on local development. There are already some interesting examples to analyse:

##### *The case of Banco Calpià*

In El Salvador (which received \$2.1 billion in remittances in 2003), to promote the productive use of remittances the Banco Calpià developed financial services and micro credit schemes that can be paid with remittances,<sup>73</sup> while the Central Bank established a Credit Program for Remitters from Abroad by which up to 90% of loans could be financed to the family of the remitters.

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<sup>70</sup> Brunson McKinley, 2003, p. 8.

<sup>71</sup> McKinley, 2003.

<sup>72</sup> Carling, 2004, p. 56.

<sup>73</sup> <http://www.laprensagrafica.com/dpt15/remesas/remesas06.asp>

The loans could be used for the purchase of house and lands or for financing the creation or enlargement of a small enterprise or for the purchase of capital goods. However, despite the large amount available for these loans, the service has been used to a very limited extent.<sup>74</sup>

### *The case of “Jijenge” -Realize Your Dream*

The Kenya-based Equity Building Society (EBS) has linked savings products to remittances. The product “Jijenge” -*Realize Your Dream*- is a contractual saving product targeting Kenyan migrant workers remittances. In this way a part of their remittances is deposited in a saving account in order to build or purchase a house.

EBS was founded in 1984, and is registered under the Building Society Act Cap 489 Laws of Kenya. In 1994, EBS shifted its focus from mortgage finance to microfinance. It began targeting a niche of small and medium entrepreneurs, salaried persons in both the formal and informal sectors and small-scale commercial farmers not receiving services from mainstream financial institutions. Presently EBS serves as a distributor as well as sender of remittances. Recently, EBS signed a sub-agency agreement with Western Union, allowing it to access its money transfer services. As a result of the agreement, Kenyans will be able to access a worldwide network of 190 countries. EBS has also partnered with the International Finance Corporation (IFC) to support investment in a private sector project to encourage market development for photovoltaic energy. In December 2004, Equity Building Society converted to a fully fledged commercial bank. Today, Equity is a public company that is 80.56% owned by over 2,416 indigenous shareholders, 8.20% by Britak Investment Company Limited and 11.24% by AFRICAP (AFRICAP is a consortium of international development investors, principally the International Finance Corporation, the private sector arm of the World Bank, and the European Investment Bank).

The largest volume of its remittance business is from Kenyans living in Europe and the United States who send money home mainly to save, invest or support their families. EBS is also involved in money transfers out of Kenya for clients that send money to support children studying abroad. EBS can route international remittances out of Kenya through Western Union or through bank telex transfer (traditional wire transfer).

A specific product of EBS is of concern for this study: EBS has a contractual savings product, “Jijenge” –which means in Swahili *Realize Your Dream*, through which clients can save a fixed amount over a pre-determined period of time. This product has been linked to remittances received; EBS clients include a number of Kenyans living overseas who have subscribed to this product. EBS also has an ordinary savings account which is where most remittance recipients save a portion of their remittances. Eighty percent of remittance recipients retain a portion of their remittances in savings. The process involves depositing the money into the savings account and withdrawing sums at gradual intervals. Jijenge allows a customer to commit to save a specific amount of money within a certain period for a specific purpose, such as school fees or business expansion. Access to loans can be up to 90% of the deposits at 1.25% interest rates per month. The client, not EBS, determines both the amount and the timeframe. People find this contractual savings very helpful in saving up these small lump sums to use mainly for school fees or for buying household items, electronics in urban areas and working tools or cattle in rural areas. However, still today, Jijenge contributes a very small portion to the deposits mobilised by the bank.<sup>75</sup>

EBS also offers fixed deposits that provide a premium interest earning investment opportunity and super junior investment accounts to invest in the future of dependants and provides education loans, salary advances, medical loans, business loans, farm input advances, and development loans for the

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<sup>74</sup> <http://www.conapo.gob.mx/publicaciones/Migracion%20Op-Politica/PDF/lozano.pdf>

<sup>75</sup> [http://www.cgap.org/direct/docs/case\\_studies/EBS.pdf](http://www.cgap.org/direct/docs/case_studies/EBS.pdf)

acquisition of durable assets. EBS's other services include a training program which equips clients with basic business skills as well as bank and school fee cheques and Western union money transfers, remittance processing and inter-branch transfer.<sup>76</sup>

#### *The case of the Dominican Association for the Development of Women "ADOPEM"*

Another relevant experience in linking micro finance and remittances is that of the *Dominican Association for the Development of Women "ADOPEM"*, an affiliate of the Women's World Banking Network. ADOPEM is embarking on a strategy to integrate remittances into its current business lines in partnership with Quisqueyana (a money transfer operator). The institution is professionally managed, offers personalized services, utilizes an internal credit methodology and has embraced technology in its operations.

ADOPEM recently converted to a development bank, in the spring of 2003, when it also acquired Banco de Desarrollo del Valle. By December 2002, ADOPEM had extended 36,700 credits in total providing Dominican women credit for micro- and small businesses, as well as training, as a means to economic empowerment and integration into the formal financial sector. ADOPEM also offers individual loans for business investment, working capital and housing, as well as savings products. A measurable reliable stream of remittances could help secure many of ADOPEM's products and services, among which those targeting families in extreme poverty and struggling businesses that lack collateral.

Because ADOPEM's capacity-building training programs for management and vocational skills are well-known and well-attended by microfinance professionals, this type of organization might be a promising partner for delivery of programs related to the productive use of remittances within the context of financial education. Their adoption of Palm handhelds for mobile credit portfolio management illustrates readiness to take advantage of information technologies. ADOPEM's vision is to further leverage remittances into micro-health insurance, programmed savings, home improvement loans and other products.<sup>77</sup>

#### *The case of Unlad Kabayan Migrant Services Foundation*

The remittances-micro credit and development triangle in the Philippines is tackled by the local Ngo (Unlad Kabayan Migrant Services Foundation). Unlad Kabayan is a Philippines-based association established in 1994 as a program of the Asian Migrant Center (AMC), a non-governmental organization based in Hong Kong. The NGO organizes savings associations -*Migrant Savings for Alternative Investment* or MSAI- as a capital build-up mechanism for the establishment of income-generating activities in the Philippines. After years of organizing migrant workers and providing various services to help them cope with their problems, the AMC decided that the long term solution to migration is savings mobilization, building of savings associations among migrant workers and alternative investments at home. In 2003 the NGO supported 127 micro and small enterprises owned and managed by returned migrant workers and/or members of their families. The program intends to set a trend for migrant savings and investment, thus helping to develop savings values among migrant workers and to create alternative jobs at home. These jobs may be filled by migrant workers themselves upon their return.

Furthermore, Unlad-Kabayan offers training for starting up small businesses and access funds, micro credit for agricultural production, micro agro-industries, organic farming and for rice trading, general information on investment opportunities and the economic situation of the Philippines for

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[http://www.mfnetwork.org/members/equity\\_building\\_society.html](http://www.mfnetwork.org/members/equity_building_society.html);

[http://www.seepnetwork.org/files/2084\\_Equity\\_Mobile\\_Banking\\_Unit\\_Coetzee\\_et\\_al.1.doc](http://www.seepnetwork.org/files/2084_Equity_Mobile_Banking_Unit_Coetzee_et_al.1.doc).

<sup>77</sup> Leonora Suki, 2004.

migrant workers and their families. Unlad Kabayan publishes regular Economic Updates and Migrant Workers News. The main social impact of the programs carried out by Unlad is that migrants are empowered to act as entrepreneurs within their own communities to establish micro enterprises that create jobs and income that benefit not only themselves, but also their family and neighbours. Support from community partners is critical, and the NGO effectively mobilizes strategic partners. Government agencies, local government, community-based organizations, universities, and the private sector provide capital investment, in-kind contributions, technical and research support, and social services. Unlad and its partners also provide vital social services to migrants who have experienced social and psychological complications associated with migration and abuse abroad.

Unlad reaches out migrants through traditional marketing efforts like print materials and community outreach like training seminars, workshops, and through active participation as an activist organization for migrant rights. Unlad also promotes its efforts more broadly through research and advocacy, publishing papers and participating in conferences. In partnership with UNIFEM, it has commenced a pilot savings mobilization and investment scheme for on-site and returned women migrants. The initiative emphasizes the productive contribution of migrants to destination and source countries, to their communities and families. It advocates for gender responsive reintegration services (e.g. safe channels to remit savings; facilities for productive investment), as a right. The savings and productive investment pilot is also envisioned as a development strategy in source sites aiming to create an enabling environment that makes reintegration an attractive proposition to migrants, and also has the potential to contain out-migration.

According to its supporters, the strategy of the Unlad-Kabayan Migrant Services Foundation is based upon a replicable model called MSAI-for-CDR (Migrant Savings and Alternative Investment for Community Development and Reintegration). Therefore the model can be replicated wherever migrants work and live. Specifically, MSAI-for-CDR provides a structured framework that allows organizations to replicate the aforementioned steps in any migrant community. The model fosters sustainability by building consensus around a common vision and binding migrants and partners to achieving the vision. The way the model is structured makes it flexible to account for cultural differences. Unlad has already consulted in countries like Tajikistan and Indonesia to explore replication.<sup>78</sup> According to the information available on Unlad internet website, the Unlad goal to empower migrant communities to create micro-enterprises is based on a six-step strategy<sup>79</sup>:

Step 1 - Organize the migrant community:

The first step is to organize the migrant community. While migrants understand the temporary nature migration, the prospects of saving and investing in microenterprises can be initially daunting. Not everyone is born an entrepreneur, and Unlad goes to great lengths to reach out and educate migrants about the risks and rewards of investing. For those who chose to participate, training in savings strategies, business management, and investing is provided. Unlad has garnered widespread support from migrant communities all over the world, like seamen in the Netherlands and domestic workers in Hong Kong.

Step 2 - Identify prospective microenterprise projects:

Migrant communities invest only in viable microenterprise projects. Unlad conducts thorough feasibility studies, due diligence with management teams, and assessments of future profitability. Unlad works with community members to identify prospective projects, and migrants can also propose projects from local industries in their hometowns. Only a small percentage or reviewed projects are considered for investment. Examples include raising livestock, diversified farms, merchant businesses, small- and medium-scale manufacturing, and others.

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<sup>78</sup> Marie Feliciano, 2005; Maria Angela C. Villalba, 2002; UNIFEM, 2003.

<sup>79</sup> <http://www.changemakers.net/journal/04november/case1-6-14-47.cfm>, visited on 14 September 2006.



### Step 3 - Forge community partnerships:

Support from community partners is critical, and MSAI-for-CDR effectively mobilizes strategic partners. Government agencies, local government, community-based organizations, universities, and the private sector provide capital investment, in-kind contributions, technical and research support, and social services. For example, Unlad partners with Hong Kong-based Asian Migrant Centre to provide training for the Forum of Filipino Reintegration and Savings Groups to invest in projects. Unlad has also facilitated public-private partnerships with the Bank of the Philippine Islands to establish financial education curricula for migrants.

### Step 4 - Execute the project:

Once the previous steps have been accomplished, the microenterprise projects can be launched and executed. There are a number of arrangements that can be established, such as working with outside project management teams or electing managers from their own ranks. These managers are responsible for the execution of the project and apprising the savings group of progress. For example, migrant groups in Hong Kong elected a capable migrant returnee to operate the FAMDEV diversified farm in Malaybay, Bukidnon. The farm spans 5.5 hectares and includes free-range chicken raising, cut flowers, and other agriculture. The management team has worked through typical management challenges and produces between 600-800 heads of chicken per 15-day cycle.

### Step 5 - Measure performance and improve operations:

Measurement is critical for assessing performance and understanding the overall impact of MSAI-for-CDR. It identifies efficiencies and deficiencies, such as production capacity problems for coconut husks in San Isidro. Management is currently looking for investments to purchase machinery to expand production capacity. Measurement also assesses the broader socio-economic impact. For example, in Bukidnon, the FAMDEV farms benefited the community by creating jobs for 4 permanent workers and 60 seasonal workers.

### Step 6 - Reintegration:

When migrants return to the Philippines, Unlad helps them to make the necessary transitions to adjust to life at home. Continuing education and management training provides them with skills to assist in managing existing microenterprise projects or to seek out new opportunities. Unlad and its partners also provide vital social services to migrants who have experienced social and psychological complications associated with migration and abuse abroad.

### *The case of micro-credit service “Fonkoze” - Haiti’s Alternative Bank for the Organized Poor*

The about 2 million Haitians abroad provide the most needed currency for sustaining the economy of the country. In 2005, remittances totaled more than 1 billion USD, i.e. 24% of the country’s GDP, making Haiti one of the largest recipients of the Caribbean. A New York-based micro-finance institute “Fonkoze - Fondasyon Kole Zepòl” (which translates *as the shoulder to shoulder foundation*) has recently entered the remittance business together with a local money transfer operator “Rapid Transfè”. Fonkoze is the largest Haiti’s microcredit organization, with 15 offices in 9 provinces of Haiti, offering microcredit and saving schemes is built on the principles of solidarity<sup>80</sup>. In 2004, the foundation organized in Haiti a summit with micro-credit institutions from Asia and Africa to exchange experiences and in 2005 the staff visited the Grameen Bank in Bangladesh and other similar program to undergo intensive training.

Today, it offers an international deposit service called “Ayiti Dirèk Dirèk” –“Direct to Haiti”- for Haitians living in the United States in partnership with the City National Bank of New Jersey, which is

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<sup>80</sup> Fonkoze Annual Report, 2005.

headed by a Haitian born person. Against a flat fee of 10 USD the remitter can send money home depositing the money or the check in a special account that are in this way automatically deposited in the account in Haiti. The low cost of the transfer, compared to other money transfer operators is justified by the marketing strategy of the US partner bank that has recognized the potential for attracting this type of clients. Fonkoze's remittance services are also used by home town associations, churches and charity organizations<sup>81</sup>. In ten years has increased the number of loan clients from 110 to 31,090 and the saving accounts from 193 to 94,342 and transferred more than ten million USD<sup>82</sup> (7.3 USD million only in 2004). The borrowers are practically only women (99%).

Fonkoze in Haiti was ideated by its current coordinator Reverend Joseph Philippe, together with the civil society leaders that emerged with the end of the military dictatorship. The idea of a bank for the poor was motivated by a catholic motive to empower people and provide education, health and seeds money for small businesses. The literacy and business training programs developed by Fonkoze are adopted in Haiti also by USAID and other Ngos.

The success factors of this micro-credit foundation are:

- √ An alliance with City National Bank of New Jersey, which chairman is a Haitian-born and thus accepted to lower the transfer fee;
- √ The engagement of a local catholic priest whom perceived the importance of linking micro-credit with social and pro-poor programs, inspired to successful experiences such as the Grameen Bank;

#### **e. NGOs and Local Authorities**

Decentralized cooperation actors such as Ngos and local authorities (regions, provinces, municipalities) are gradually entering the field of development designing, funding and implementing projects that involve migrants communities in the host and home country. Events such as those organized by the Council of Europe and the EU DG Social Affairs in April 2004 on "Migration and co-development: migrants actors of development here and there" to discuss the role of migrants' associations, or the Basque Countries Immigration Office December 2004 meeting on "Co-development: theoretical and practical reflections" to debate with Ngos, Universities, local authorities and migrants associations the possibility to implement co-development policies involving immigrant communities are being replicated in many places. Similarly, European large Ngos are attempting to find platforms for cooperation with migrants associations in order to supplement the management and logistics capacities that are often lacking in small migrants' solidarity associations. In this section some significant examples of concrete projects are provided.

##### *The case of Emilia Romagna Region in Italy*

The Emilia Romagna regional government has a long tradition of engagement in international solidarity projects providing funding to local Ngos and associations. Recently, the region started to look at migrants associations as potential partners for establishing solidarity and business links with the country of origin. One of the projects aimed to integrate the fruit and vegetables production of Khenifra in Morocco with that of Emilia Romagna agricultural cooperatives. The project promoted the opening of Italian cooperatives branches in Morocco and trained seasonal Moroccan workers in Italy to become agricultural technicians to be employed in the Italian cooperative branches in Morocco. In some case the project helped some migrants to set up their own cooperative upon return in Morocco.

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<sup>81</sup> Carling, 2004.

<sup>82</sup> Fonkoze Annual Report 2005.

### *The case of Tuscany and the Province of Livorno in Italy*

Moroccans communities from Khenifra are also present in the Tuscany territory and in particular in Livorno. The local authority promoted a project for transferring remittances from Livorno to a commercial bank in Khenifra and from there to five micro-credit organizations. In this way people without a bank account in Italy and in Morocco could participate to the project and benefit from a low cost transfer scheme.

### *The case of the Municipality of Modena (Emilia Romagna)*

The project co-financed by the Municipality of Modena is an interesting case of multi-stakeholders involvement in a remittances-related development project. The other actors are IOM, participating in this project under the MIDA Program (see above), the Ghanaian Association of Modena and the Confcooperative Emilia Romagna. During the process other organizations, such as the Province of Modena, local banks and local cooperatives, have joined the project. The funds have been used to support the Ghana production of pineapples and its exports to Italy<sup>83</sup>.

In 2005, the project supported the creation of GhanaCoop, a cooperative managed by Ghanaian migrants in Modena. Profits are used to support the community of Gomoa Simbrofo, a village located 95 km from Accra by providing employment and alleviating poverty. The engagement and firm beliefs in migrants as agents of development of the chairman of GhanaCoop has assured that the project was carried out. A second cooperative called GhanaItal was created with the aim to formalize the partnership between the Ghanaian community in Modena and Gomoa Simbrofo in Ghana, which in turn created under the auspices of the King Nana Kum, the traditional chief of Gomoa Simbrofo, a sister farm cooperative called "Migrants for GhanAfrica". The manager of the farm in Ghana has relatives living in Italy and working with Ghanacoop. The pineapple farms in the cooperative use traditional methods, minimizing the use of chemical pesticides and fertilizers and guarantees the security, wages and dignity of workers, a strategy that allowed GhanaCoop to enter the Fair Trade circuit.

In addition to the productive and income generating activities GhanaCoop has started to promote a special fund for channeling migrants' remittances to Ghana at low cost. Money are used for both business and social initiatives. In July 2006, the first project involving the construction of a photovoltaic cell plant in Gomoa Simbrofo for providing clean energy to the entire village has been completed.

## **C. CONCLUSIONS**

The experiences showed that the success of the projects is based on factors such as sustainability, empowerment of local beneficiaries, reproducibility, visibility in the host and home country, and ownership of the communities in the villages of origin, while the failures have instead been caused by limited access to financial resources, difficulties in travelling back and forth for the promoters of the project, the difficulty in finding reliable institutional interlocutors in the home country.

Many projects focused firstly on infrastructures development and then moved into productive schemes. The lack of infrastructure such as roads, hospitals, energy, water, schools represent the first blockage to be eliminated. The generally large size of these projects limits the possibility of co-development actions to intervene in this field with a major impact. However, small-scale social projects, such as those by Mexican Home Town Associations have provided important resources in areas which otherwise would have remained deprived.

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<sup>83</sup> Piperno, 2004.

The second level of blockage that has been tackled by these projects is the lack of markets and credit. For example, in Southern of Morocco the investments in the saffron and argan oil has created an important market for exports that benefited the entire community. Similarly, the Ghanaian communities in Italy created links with the home villages to stimulate the traditional productions and position them in higher value chains. The remittances-related credit schemes born out of these initiatives have provided the much needed start-up money for small businesses.

A third level of intervention of these projects was to stimulate the interest of local authorities in small community development projects and the creation of sister associations in villages of out-migration. The participation of several actors has guaranteed both the sustainability of the project and a broader participation in the decision making process and the definition of needs.

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