INTRODUCTION/JUSTIFICATION

Harnessing migrant remittances for sustainable economic development: A case for remittance policy in Nigeria.

Remittance policy should generate a new interest for Nigerian policy makers, and politicians, as well as development analysts as remittances by Nigerians abroad rise to a level that is comparable with its development assistance and foreign direct investments. There are opportunities to improve receipts of foreign currency through remittances from Nigerians abroad. The country needs a coherent remittance policy to maximize the benefits of remittances in nation building.

The number of migrants worldwide is now estimated to be around 214 million. By playing an active role in the economy of the country of destination, migrants are able to contribute financially to their countries of origin by sending an estimated USD 316 billion of remittances to developing countries in 2009. (IOM’s press release on International Migrants’ Day). This amount nearly matches total revenue from merchandise exports, highlighting the importance of migrants for generating foreign exchange and savings. The true value of remittances is likely to be much higher as only a portion of total remittances passes through official channels. The amount of remittances sent to Nigeria by Nigerians abroad is determined by factors such as personal and family situation back home, total earnings, the amount saved, as well as the number of dependents at home. Other factors are economic activities in the host countries, exchange rates, political risk, marital status, and the level of education of migrants. Studies on remittances to Africa reveal that the higher the education of migrants, the lower the likelihood that they would remit (Lowell, 2001). These studies note that highly educated migrants from Africa including Nigeria appear more independent from their relatives back home than the less educated ones. Migrants with high salaries tend to save or invest significant part of their financial resources in their respective host countries. Until now, however, policy makers, development agencies, economists, and researchers have shown little interest in the role of remittances in economic development, arguing that remittances were used for consumption, and not for productive investment. But this position has
changed for two main reasons. First, remittance growth has soared substantially: the World Bank reports that US$111 billion was remitted worldwide in 2001--of this amount about 65 percent went to developing countries. Second, organized groups of migrants, known as Hometown Associations (HTAs) have begun to channel a portion of their resources to fund local infrastructure projects. More recent scholarship on remittances by migrant workers reveals that the traditional view that remittances do not have a positive impact on growth fails to grasp a far more complicated picture. The indirect effects of consumer spending by receiving families and a small but still significant amount of productive investments are seen as important contributors to migrants sending economies. We all know that remittances have wider multiplier effects on income, employment and production that affect both the migrant and the non-migrant population than recognized by some experts. Furthermore, migrants’ remittances have a significant stimulus to the agricultural and commercial sectors. Given the importance of remittances in households’ income and in light of the multiplier effects of remittances on production, income and employment, the government of Nigeria should have a remittance policy that aims at maximizing the impact of these flows on growth and development.

A number of other migrant countries, including India, Pakistan, and Egypt, and more recently, Latin American countries such as El Salvador, Nicaragua, Honduras, and Guatemala already have remittance policies. These countries have devised mechanisms aimed at mobilizing remittances for investment through higher interest rates on term deposits, foreign currency denominated banking accounts, and tax incentives. Furthermore, institutions have been established in these countries to encourage the repatriation of remittances and complement them with government programs to promote small-scale industries. Training programs for returned migrants and schemes to use seed money for migrants’ start-up businesses are promoted. Also, some countries allow migrant residents abroad to export to their families in the home country machinery, vehicles and capital goods at lower tariff rates. A coherent remittance policy should selectively target the appropriate groups and give them incentives to use remittances to encourage growth and sustainable development in their communities or regions. Some scholars (Siri and Calderon 1996) have grouped remittance policies into three categories. First, policies oriented to increase the flow of remittances and to channel migrants’ savings into national financial institutions. Second, policies to promote savings and investment among the receiving households in the country of origin; and third, policies to promote infrastructure development financed totally or partially by “collective,” remittances.

Below are some of the policies to complement the existing policies during the implementation of the project

**Policies Meant to Reduce Transfer Costs:** The first type of policy is directed to migrants themselves. Some of these policies are designed to encourage the participation of social organizations to function as exchange houses to reduce transfer costs. In some cases, there have been attempts to negotiate directly with
money transfer firms for a reduction in transfer fees. Another policy instrument used in other countries is the promotion of cooperatives and foreign branches of national banks. One joint effort, known as the International Remittance Network (IRN), allows migrants to deposit remittances in United States and withdraw them in their country of origin. All these policy measures are meant to promote competition among transfer firms to reduce excessive transfer fees. A 1997 study by the Mexican senate estimated that the loss due to excessive charges and exchange rate manipulations by transfer firms was about 20 percent of the total flow of remittances. Western Union settled a suit brought by Mexican organization in United States for failure to disclose the true cost of transfers.

**Policies to Redirect Some of the Remittances to Investments:** The second policy measure that attempts to channel remittances to promote development is directed towards households that receive the remittances. These policies encourage the creation of social funds, as well as savings and credit plans to finance home purchases and small business start-ups. Some governments have also sponsored educational programs to change spending habits among households receiving remittances in order to encourage the use of remittances for development projects. Non-governmental organizations have also promoted the productive use of remittances among poor households and have provided technical assistance programs to help migrant households to develop small-scale productive projects. In Philippines, the Philippines based NGO; “UNLAD KABAYAN “ is mobilizing migrant workers resources for productive use and community development. It mobilizes and pools migrant savings together, identifies appropriate investments, and facilitates credit applications with the objective to create jobs through sustainable business. There are three services available to migrants under this program: 1) savings accounts 2) investments in existing businesses and special start-up funds. Also in Indonesia, Micro Banking Division of Bank Rakyat Indonesia (BRI) is capturing remittance transfers and putting them to productive use in rural areas. Besides, saving services, BRI also offers additional financial services, the bank lends to immigrants workers’ families, which could be paid back with remittances sent by the migrant abroad. BRI also offers credit to migrant workers at the time of departure, which is secured with solidarity group.

**Policies to Involve Migrants in the Development of their Communities at Home:**
The third type of a remittance policy is directed towards groups of migrants abroad. There has been great interest recently in the development of hometown associations in United States. Migrants from the same place of origin form associations to finance specific project in their hometowns. These funds are earmarked for social projects, such as: the reconstruction of a local church, the renovation of a local clinic or local school, the construction of a library or some other project specified by the community. Our programme officer narrated a story of an association that his cousins belonged to in U.K. who informed us of the Oke Odan Descendant Association in U.K. This group, we learnt, has financed the construction of a
community school, provision of computers to schools and scholarship project in their hometown. There are many of such Nigerian immigrants’ associations in America and Europe. The Nigerian government needs to motivate these associations and help promote the formation of more of such hometown associations. The government can collaborate with these associations in its rural or community development programs as being done in many Latin American countries. In Zacatecas state of Mexico, there is a program called, “Two For One” in which the state government invest $2 in infrastructure projects for each dollar invested by its citizen abroad. In Jalisco, the state government has established a fund to finance a series of infrastructure projects in migrant-sending regions and it expect to receive matching funds from the World Bank, and the Mexican Financial Bank. During the 1990s, The Mexican government took the initiatives in reaching out to its emigrants in the United States, helping them to form hometown associations (HTAs) and encouraging members to remit and invest in their communities of origin. The HTAs have served as platforms for matching fund schemes that pool remittance money with government funds and expertise, and occasionally with private-sector contributions, for locally focused economic development projects. Mexico realized $9.3 billion from remittances from abroad in 2001 as result of pursuing the foregoing innovative programs, and the trend is to continue at an annual rate of 12.3 percent every year. The Nigerian government should initiate a policy to court Nigerian Hometown Associations and private sectors to channel funds into job-generating projects. This could be done by creating a unit or an agency, for example, “The Migrants Living Abroad/ Diaspora Office,” or by presidential visits. Such an office should liaise with multilateral organizations like the World Bank, ADB, DFID, USAID, CIDA and other international organizations to discuss ways to channel matching funds in order to complement the effect of remittances in rural or community development projects.

Voluntary Check-Off Contribution: Another area that can be explored by the Nigerian government in collaboration with the money transfer companies is the “Voluntary Check-Off Contribution.” Under this program money transfer companies might offer remitters an option, at the point of sale or transfer, to voluntarily donate a portion of their money to economic development. The form used to transfer the money could contain a box that customers could check off if they wished to donate some part of their remittances to special fund. For example, US$1 contribution could be earmarked for educational reform, or qualifying charitable organizations that work in Nigeria. An independent private sector or NGO could manage these development funds, and the customer might be asked to choose from a range of possible destinations for the donation.

The Use of Financial Instruments to Attract Remittances through Official Channels: Remittance Foreign Currency Accounts: Many countries allow migrants to remit their foreign earnings into foreign-currency accounts (RFCAs) in domestic banks that are not subject to foreign exchange regulations. India and Pakistan have
an active interest rate policy relating to these accounts in order to ensure an attractive premium over world financial market rates for account holders. In Pakistan, the rate on foreign currency accounts is constantly adjusted in line with the movements in the Eurodollar deposit rates in London. The India government also consistently maintained interest rates on these accounts at substantially higher level than that on comparable domestic or Euro-currency deposit. Bangladesh offers a premium exchange rate conversion of foreign-currency balances into local currency. Migrant workers are also allowed to sell the balances in foreign currency accounts directly to importers through daily “auctions” conducted by the major national banks. The only problem with these policy instruments is that they are attractive to the highly educated, and higher skilled categories who earn relatively higher incomes. Foreign currency bonds: Some countries like India, Pakistan, and Bangladesh use foreign currency denominated bonds as a tool for stimulating remittances. Foreign currency bonds are similar to repatriable foreign currency accounts in that the money invested is repatriable without being subject to foreign exchange regulations. Several years ago, Mexican banks began offering remittances bonds backed by money sent from migrants abroad in United State (Druckerman 1998). For the most part, banks that receive large amount of wire transfers from workers and companies abroad issue the bonds. Many third world countries like Philippines, Brazil and Turkey are exploring this financing options and new sources of debt marketing. The Nigerian government should explore the possibility of using these financial instruments to attract more remittances through the official channels. In conclusion, I would say that the formulation of a coherent remittance policy by Nigerian government would call for collaboration among Nigerian Hometown Associations, financial institutions, the government, and the entire Nigerian community in the diasporas. To be effective, policy options to increase the volume of remittances to Nigeria through official channels should have a direct effect on issues relating to reducing transaction costs, leveraging the capital potential through banking, and promoting tourism. There is a need for more innovative ideas to generate more foreign currency from other sources to help extricate the country from the financial and political clutches of the international financial institutions.

Remittances from migrant workers are fast outpacing official aid flows and even foreign direct investment (FDI) as a source of external finance for many developing countries. Remittance flows are now double the size of official development assistance (gross flows of which, before deducting debt repayments, were US$117bn in 2007, according to the OECD). Even more surprising, in terms of value, remittances are rapidly approaching FDI flows to developing countries. Asian countries are among the biggest recipients—India was the top recipient, getting US$27bn, followed by China with US$25.7bn and the Philippines in fourth place with US$17bn.
Some estimates suggest that upwards of one billion—almost one-sixth of the planet's population—are receiving some benefit from remittance flows. Since the vast majority of the recipients are poor, inevitably the question arises whether remittances can help to finance broader development. The issue has been hotly debated. While no formal statistics exist, based on studies of the use of remittances it can be assumed that the vast majority of them are intra-family. Detractors have pointed out that such remittances are put to mainly "unproductive" uses—satisfying basic consumption needs, buying medicine, building a house for the migrant's retirement, or spending on "conspicuous consumption" at festivals and funerals as well as in daily life.

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

Value-Added of this write up

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

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

- **Infrastructure to enable recipients to leverage remittances is lacking.** Most migrants come from rural villages that lack basic infrastructure and access to financial services, either because mainstream banks do not reach out to this segment of the population or because microfinance institutions, which are designed to serve them, are not present. Recipients who might otherwise be encouraged to start a cottage industry are thus constrained by a lack of a safe place to save the remittances they receive, the ability to leverage them through a loan or the infrastructure to participate in a market.

- **Many migrant associations would like to invest back home, but lack organisational capabilities.** Migrant associations on their own are usually ill-equipped to organise funding or to establish projects for investment back home. In cases where collective remittances have successfully financed a small infrastructure project or business, there has usually been an outside organisation, such as a local government, a non-governmental organisation like CAFSO-WRAG for Development or a business group, providing the organisational impetus. Even then the work is challenging, because the informal nature of the migrant groups makes interacting with them difficult and expensive.
• **Project identification is a problem.** Even if the migrants are organised and willing to pool funds to finance a project back home, they rarely have the ability to design projects. They usually ask the government authorities at home to send them a list of projects in need of support or work through intermediary agencies. This approach can backfire, however, because the sense of ownership of the project within the migrant community is diminished. The most successful projects are completed when the migrants are actively, rather than passively, involved. Developing their capacity to manage this process themselves could encourage more activity.

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

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

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

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

• **Establish permanent programmes for attracting and leveraging remittances.** The success of programmes in Mexico is widely attributed to the presence of a systematic programme for attracting and leveraging remittances and channelling them to appropriate projects. Such programmes should be made permanent so that they are not subject to the vagaries of electoral politics.

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

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

- **Promote organisation among both migrants and remittance recipients.**
  Building the capacity of migrant groups to expand their membership, improve fund-raising practices and develop basic project management and promotion skills will be a critical factor in their success. But it is also the most difficult challenge to overcome. The chief bottleneck is that the leaders of migrant associations are usually part-timers or volunteers and thus may lack both the time and motivation to become professional managers of this process.

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

With remittances now such an important force in the international economy, it seems likely that everyone from migrant groups to their families back home, local and national governments, and supranational agencies will look to leverage them in one way or another.

Thank you.

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