



Enterprise Impact News

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Contents

- The impact of remittances 1
- Publications 3
- Web sites and conference 4

The impact of remittances

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This is a summary of the DFID-commissioned paper Assessing the Impact of Migrant Workers' Remittances on Poverty presented at the New Directions in Impact Assessment for Development conference and recently added to the Applications Guidance section of the EDIAIS web site.

Remittances (the money sent home by migrant workers) now exceed all spending on development aid. Therefore their impact on local livelihoods and poverty is of great significance. The increased income can certainly contribute to household livelihood strategies, allowing better access to local goods and services and the possibility of accumulating assets. But remittances can also increase inequality between households and contribute to macro-economic instability in poor countries. How then should their impact be assessed?

Why send money home?

Some theorists see remittances as a mutually beneficial contract between the migrant worker and their families back home which is aimed at risk sharing. The remittance not only helps the families cope better with their precarious existence but also reinforces the obligations of the family to their migrant relative should they lose their job. In this case the amount of money sent home would not be solely determined by the poverty of the family.

Others consider remittances to be an altruistic gesture born of responsibility and family affection. Here migration is seen as a family decision where the migrant uses

established social networks both to migrate and to send money home. In this case remittances will vary according to how many migrant workers are in the family and how poor the family is. Others see both self-interest and altruism as factors in the motivation to migrate and remit.

How are remittances sent?

It is generally agreed that most remittances are not transmitted through formal channels. The reasons for this include the risk involved in using formal channels for migrants whose residence is illegal or insecure, the desire to avoid taxation and other charges

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levied through formal systems, the need for speed and reliability and a lack of choice when the recipient lives in a war zone or an area with insecure formal capital markets or infrastructure. Informal channels may often be linked to the same word-of-mouth networks that helped the migrant to relocate in the first place. Studies show that when receiving countries establish incentives to use formal channels they tend to be used more.

Positive and negative impacts

One school of thought suggests that remittances are beneficial at all levels including the individual, household, community and national levels. They increase disposable incomes and demand for local goods and services and play a vital role in developing local capital markets and infrastructure. Another school of thought sees remittances as contributing to dependent relations between the sending and receiving countries. Within countries remittances increase inequality between households and cause macro-economic stability problems for countries with low GDP.

A third school of thought, the emerging *trans-migrant* school, links these two positions by focusing on how social networks link local and global processes. This approach does not restrict itself to looking at money flows but also considers the flow of goods and new ideas that impact on the social fabric and structures of the home communities. It focuses on how remittances are embedded within an emerging structure where many economic, social and even political transactions take place.

Literature from this perspective takes a balanced view of the impacts. Although critical of the structure within which migrants remit, it allows that positive impacts can occur. While the overall effect on poverty can be ambiguous, empirical studies overwhelmingly support the idea that remittances contribute powerfully to reducing poverty in most households and communities. While they do increase inequality at the local level, at the international level they transfer resources from developed to developing countries and so help to reduce inequality. However, where countries have many migrants and a low GDP, remittances can decrease macro-economic stability and cause poverty especially for those who do not receive remittances.

A framework for assessing poverty impact

Any such framework needs to adopt a multi-dimensional definition of poverty i.e. one that considers not only cash income

and consumption but also asset accumulation and access to entitlements like health and education. Remittances, of course, will not be the only reason for a family's poverty or wealth. A medium-term time frame is therefore needed with the aim of examining the marginal benefits of remittances to the household and developing policy interventions that increase positive impacts.

It is necessary to take into account the different impacts on men and women of different ages (both as senders and receivers), the different uses made of remittances and the constraints of illegal migration on remittances and poverty reduction. One challenge is to find ways to provide transfer mechanisms for illegal migrants that are more attractive than informal mechanisms such as hawala.



Migrant workers in the United States

Data limitations are a serious problem given the high level of unrecorded remittances. Survey based micro-level data can be combined with official data in order to include estimates of unrecorded remittance flows. Econometric models are of limited value given that the causality between poverty, migration and remittances is ambiguous and that remittances may be used more for consumption than investment. Therefore a combination of family case studies and participatory research based on a stakeholder framework is recommended.

When defining the scope of the assessment it is essential to have a clear understanding of the policy environment. For example, might a new government decide to change the way it regulates currency transfers? Might a reduction in foreign direct investment lead to deflation and cause migrants to invest their money elsewhere?

Tools useful in the scoping process include flow charts, Venn diagrams and value chain mapping. These can help identify the main activities involved in the impact chain, their geographical spread, the main stakeholders concerned and the relative size and importance of each element.

One particularly useful tool is lens shaping which can be used to show the mutual interaction between the policy environment and poverty reduction. Here

the policy environment is examined to show how the level and use of remittances (inputs) is determined by institutional, economic, social and cultural factors. The poverty reduction lens is then used to show outputs i.e. the impact of remittances at national, community, household and individual levels. The way these impacts feed back into the policy environment and affect further impacts can then be drawn out.

Sustainable livelihoods frameworks, human rights and pro-poor market approaches can all be used to define indicators. (Detailed examples of these are given in the Annexes of the paper of which this is a summary.) Such approaches need to be refined and adapted by the assessor according to the purpose of the assessment as established through stakeholder participation at the scoping stage. To keep data collection simple and increase reliability a few key indicators related to the Millennium Development Goals should be chosen.

For example, in relation to the goal of eliminating gender disparity in primary and secondary education by 2005, it can be established whether remittances are used to enable more girls to attend school or more women to obtain literacy skills. In relation to women's empowerment more broadly it could be investigated, for example, whether women have greater control over resources in the absence of a migrant spouse or whether girls become more vulnerable to abuse when their mothers are working away.

Conclusion

The evidence suggests that, at a local level, remittances now form an important part of household livelihood strategies although the selective nature of migration means that the chronically poor are unlikely to benefit directly. Where there are effective structures and institutions for using remittances there can be multiplier effects on the local economy. Extra jobs can be generated and new economic and social infrastructure created. At national level, remittances, especially through formal channels, may provide valuable foreign currency and contribute to GDP. For very poor countries however exchange rate regimes may be destabilised through the creation of parallel currency markets. Any framework for assessing the impact of remittances therefore needs to be sufficiently flexible to consider positive and negative impacts at all levels. ■

Hannah Weyer

Publications



Small Enterprise Development Theme issue: Migrant worker remittances

Volume 15 Number 1 March 2004 ITDG Publishing

SED presents a selection of papers from the 2003 DFID/World Bank *International Conference on Migrant Remittances*, which explored what governments, donors and others can do to enhance the positive impacts of the remittance industry on the poor. Remittances can be viewed from a number of different perspectives. Recipient country governments generally welcome remittances and prefer them to flow in legally. Appropriate incentives can help: policy instruments being employed in the Philippines are described. From a financial services perspective, remittances are person-to-person transfers: transaction costs are quite high and although informal channels are often efficient and cheaper they introduce extra risk. A network linking US credit unions with others in Latin America has helped bring down costs, widen access to banks and encourage saving. The opportunity for African MFIs to get involved in money transfers is explored and the remarkable efforts of Somalia's remittance industry to cope with regulation and provide a reliable service in the absence of a functioning state are described. To access conference papers and presentations direct go to www.livelihoods.org/hot_topics/migration/remittances.html



A background report on the operation of informal value transfer systems (Hawala)

Ballard, R. 2003
www.art.man.ac.uk/CASAS/pdfpapers/hawala.pdf

Roger Ballard is an anthropologist and one of Britain's leading experts in the social and cultural strategies developed by South Asian immigrants and their British children as they establish themselves in the UK. This paper is informed not only by his involvement in the ESRC study *Kinship, Entrepreneurship and the Transnational Circulation of Assets* in which, unsurprisingly, he found the actual operators of Hawala most reluctant to discuss their commercial secrets, but also by his interviews with several (very

cooperative) Hawala operators who were in the uncomfortable position of having been charged by the Customs and Excise with money laundering. He was then able to piece together the way in which that part of the Hawala system driven by the remittances of South Asians in Britain actually operates.



Workshops for policy makers: background document – labour migration

2003

www.iom.int//DOCUMENTS/GOVERNING/EN/MCINF_267.PDF

This short paper looks at the determinants and effects of labour migration on both sending and receiving countries. It notes that many countries are developing their regulatory capacities to manage labour mobility, taking into consideration the interests of respective governments, societies and the migrant. It spells out the issues for both sending and receiving countries and the ways these are currently being handled and concludes with a number of key questions.



Labour Education 2002/4, Number 129 Migrant Workers

ILO 2002

www.ilo.org/public/english/dialogue/actrav/publ/129/index.htm

This special issue of *Labour Education* tries to launch a debate within the trade union movement in preparation for the general discussion on migration which will take place at the 2004 International Labour Conference in Geneva. The editorial argues that studies show that the contribution made by migrant workers to the social security coffers in the countries to which they emigrate exceeds what they take out of the system. Exporting countries also benefit from their remittances which are greater than the sums allocated to development aid. In fact migration is the linchpin of growth for many countries in both the North and South. What still has to be done is to make sure that it happens in a way that fully respects fundamental human rights. The special issue includes an article by Judith van Doorn on *Migration, remittances and development*.



Labour migration in Asia: trends, challenges and policy responses in countries of origin

IOM 2003 US\$ 35.00 ISBN 92-9068-177-2

Responding to chronic labour shortages in the oil rich Arab states in the 1970s and 1980s, some Asian states have been among the first to develop an active overseas employment or labour migration policy that seeks to provide protection to its nationals working abroad, relieve domestic unemployment and augment foreign exchange earnings. This volume looks at recent trends in labour migration in Asia, the issues and challenges faced by migrants and countries of origin, and policy responses by the state. The report contains articles by labour migration specialists at the ILO, IOM and the APMRN (Asia Pacific Migration Research Network) and includes a compendium of labour migration policies and practices in nine major Asian labour sending states.



Putting data to work for immigrants and communities: tools for the Washington D.C. Metro area and beyond

Brooks Master, S. et al *Numbers in the Public Interest/Migration Policy Institute* 2004

www.migrationpolicy.org/pubs/PUTTINGDATATOWORK.pdf

Featuring a compact "data users pullout guide" designed for easy reference by staff at non-profit organisations, this report surveys the most commonly used migration data sources in the field, designs budget-conscious ways to commission customised analysis through government and private sources, and outlines good providers of training for staff. Placing data more firmly in the hands of immigrant services and advocacy organisations is a challenge. While this report looks closely at one important immigrant-receiving regime in the United States, its findings will be useful to a much broader audience. ■

Web sites

www.ilo.org/public/english/employment/finance/remitt.htm

This is the web site of the International Labour Organisation project *Releasing the Development Potential of Migrant Workers' Remittances*. The central objective of this project is to contribute to economic empowerment of under-privileged women and men in labour-exporting countries. Its strategy aims to induce microfinance institutions, socially responsible banks and/or formal money transfer agencies to capture remittances and optimise their use, thereby contributing to national economic development. This calls for safer and more cost-effective official transfer mechanisms, additional incentives to capture informal remittances, the introduction of innovative services and improved access to development programmes. Reports from this action-orientated research programme in Bangladesh, Nepal, Mexico, Senegal and South Africa are currently available on the site and others are in the pipeline.

www.cdr.dk/ResTHEMES/conflict/migdevfinal.htm

The Centre for Development Research, Copenhagen, undertook this policy study during 2001 - 2002. It addresses the migration-development nexus through three inter-related concerns in Danish and European development strategies: i) working to ensure that globalisation processes benefit the poor in developing countries; ii) intensifying efforts to prevent, manage and settle refugee producing conflicts in developing countries, and iii) analysing the extent to which migration and asylum/refugee policies should be linked more closely with development strategies. The study involved crosscutting analysis of available evidence, stakeholder interviews, and papers commissioned from several international experts on the subject. It consists of an initial State of the Art Overview, three Country Case Studies, six Expert Working Papers – including *Remittances and other financial flows to developing countries* and a final Policy Study, which incorporates findings from all the papers.

www.iom.int/

The International Organization for Migration (IOM) acts with its partners in the international community to assist in meeting the growing operational challenges of migration management, to advance understanding of migration issues, to encourage economic and social development through migration and to uphold the human dignity and well being of migrants. By providing a forum for international dialogue on migration, governments and IOM together with other relevant inter-governmental and non-governmental organizations are able to explore modern migratory movements and the policy opportunities and challenges that they pose. This initiative is designed ultimately to enhance the capacity of governments to ensure the orderly management of migration, promote the positive aspects of migration, and reduce irregular migration. The web site includes details of IOM activities, migration research publications, calendar of events and a What's New section.

www.migrationinformation.org/index.cfm

The Migration Information Source provides fresh thought, authoritative data from numerous global organizations and governments, and global analysis of international migration and refugee trends. A unique, online resource, the Source offers useful tools, vital data, and essential facts on the movement of people worldwide. Working with a team of international correspondents, they chronicle global migration movements, provide perspectives on current migration debates, and offer the tools and data from numerous global organizations and governments that are needed to understand migration in a way that is accessible to researchers, policy makers, journalists, and other opinion shapers.

www.iom.int/en/know/idm/tms_2003_11.shtml

IOM, the OECD, and the World Bank organized a joint seminar on trade and migration in November 2003 in

Geneva. This brought together internationally for the first time trade and migration officials for an informal exchange of views on the relationship between migration and trade, in particular the supply of services via the temporary movement across borders of natural persons, or "Mode 4" of the World Trade Organization (WTO) General Agreement on Trade in Services (GATS). At its most fundamental level, the seminar explored prospects for greater progress in enabling the movement of persons as suppliers of services in today's increasingly integrated global economy. Progress in Mode 4 is seen by many as the litmus test for the services negotiations in the WTO Doha Development Round, since a key area of comparative advantage for many developing countries is the human capital and resources they have to offer for the international economy and for the development of their home countries. This section of the IOM web site provides the agenda and papers from the seminar.

Conference

Human Movements and Immigration World Congress

1 – 5 September 2004

Barcelona, Spain

The Human Movements and Immigration World Congress to be held in September 2004, in Barcelona, as part of the Universal Forum of Cultures, is an opportunity to better understand migration in all its complex and diverse forms. In accordance with the Forum's objectives, the Congress aims to offer new, realistic ideas with the goal of steering future debates and contributing to the action of public authorities in the management of migration policies. More information at www.mhicongress.org/aindex.php ■

Enterprise Impact News was edited by Sarah Mosedale, Project Research Officer, as part of the Enterprise Development Impact Assessment Information Service (EDIAIS), which is managed jointly by the Institute for Development Policy and Management at the University of Manchester, and Women in Sustainable Enterprise (WISE) Development Ltd.