



Remittances

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Gender, Migration and Development *Series*

The United Nations International Research and Training Institute for the Advancement of Women (UN-INSTRAW) promotes applied research on gender issues, facilitates knowledge management, and supports capacity-building through networking mechanisms and multi-stakeholder partnerships with UN agencies, governments, academia and civil society.

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"Remittances"

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4



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1. “Remittances and development”

Remittances represent the most visible factor linking migration and development, and thus play the leading role in both research and policy initiatives which address the intersections between the two. Indeed, the impressive rise in the volume of remittances sent by migrants worldwide since the early 1990s has led to increasingly optimistic assessments of their development potential for source countries, while fostering expectations on the part of many destination countries that the beneficial development impacts of remittances could decelerate migration flows in the near future. As of yet, the empirical evidence linking migration and development is weak, and the development impacts of remittances are often difficult to assess, as contradictory outcomes may result at different levels, while contextual and country-specific factors can lead to varying outcomes. Furthermore, the use of different conceptual frameworks, explanatory models, and empirical methodologies may lead to diverse and even contradictory evaluations of similar occurrences. At the most basic level, this is exemplified by the very different estimates of the overall volume of remittances received by source countries: “Many analysts use the gross amount of remittances to developing countries to highlight their importance relative to official development assistance and other financial flows. But this is misleading, since the gross figures do not take into account the transfers that migrants make to rich countries, and those that take place between developing countries. When these “reverse flows” are taken into account, the net amount received by developing countries is much smaller...” (IOM, 2005).

Nonetheless, remittances have become the largest source of foreign exchange for many poor countries -as in the case of the Latin American/ Caribbean region, where remittances surpass the combined volume of all foreign direct investment and official development assistance

(Newland, 2007). As a result, remittances can improve source countries’ international credit ratings and be used to raise external funds by securitizing future flows, as has been done in recent years by Brazil, El Salvador, Turkey, Mexico and other countries (IOM, 2005). Remittances increase the GNP and have a positive effect on source countries’ balance of payments -which can result in rising imports of non-essential and luxury items, and an appreciation of the country’s real exchange rate, which in turn can lead to a drop in exports. Moreover, remittances account for a very small portion of global financial flows, thus their balance of payment benefits cannot be expected to compensate the risks posed by short-term, speculative capital, which can move from one country to another at lightning speed.

The stability of remittance flows and their counter-cyclical nature make them a valuable source of foreign exchange to source countries, in contrast with the more unpredictable nature of direct foreign investments and other financial flows. But there can be a downside to these benefits, in both economic and political terms, as source countries become dependent on the steady flow of remittances to insure macroeconomic stability. A sudden decline in remittances due to an economic downturn in the destination country can have a disastrous effect on the source country’s economy, a possibility that seems less remote in view of the current global economic climate. Changes in the migratory policies of destination countries can have a similar effect, as shown by the current decline in the growth rate of remittances to Mexico resulting from more restrictive migratory policies in the United States.

While it is generally agreed upon that remittances can have a positive impact with regards to poverty alleviation, the sustainability of this effect remains questionable as long as the beneficiaries tend to be individual households whose increased economic welfare is dependent on the uninterrupted reception of money

from abroad. Although at the aggregate level remittances represent very large sums of money, the fact that they are scattered in a multiplicity of small amounts means that very often they can barely cover the most basic survival needs of their households.

The evidence concerning the impact of remittances on income inequality is much more contradictory, as the macro effects on inequality seem to be mediated by a number of factors, such as the location and income level of recipient households. But the empirical evidence from UN-INSTRAW's case studies suggests that income disparities between recipient and non-recipient households are much more evident at the local level, as recipient households not only enjoy a higher standard of living, but their increased consumption may cause inflationary pressures on the cost of housing, agricultural land, building materials and other goods and services, which negatively affect consumption by non-recipient households.

2. The impact of remittances at the local level

From a strictly economic viewpoint, the beneficial development impacts of remittances at the local level can occur in two main ways:

- Through a direct effect on recipient households, as increased income allows for higher consumption and better access to health and education. The end result is poverty alleviation and reduced vulnerability to crisis situations -particularly those related to food security, as in the case of many African countries. Another expected result is a rise in the empowerment of women, whose role as main recipients and managers of remittances are expected to result in improved status within the household. All these positive impacts can be maximized by 'productive' investments -i.e., investments that will increa-

se future household income independently of remittances.

- Through indirect effects on the community as a whole, which can occur in several ways: a) By means of a multiplier effect on the local economy, as remittance recipients purchase goods and services from local providers; b) By increasing human capital, especially through improved health and education, which leads to greater economic productivity; c) By increasing the availability of inclusive financial capital, which can be channeled into credits for productive investments by both recipient and non-recipient households. Thus the emphasis on the banking of remittances, which is viewed as an entry point to improved financial education and services for the local community as a whole.

In addition to the problems of dependency and income inequality, a critical assessment of this model must take into account other issues, such as the need to make a distinction between the proportion of low-income households among all remittance-receiving households and the proportion of the total amount of remittances that actually flows to low-income households. In Latin America, for instance, while the lowest-income quintile generally makes up the largest proportion of remittance-receiving households, the highest income quintile tends to receive a higher per capita amount of remittance money. In some cases -such as Mexico and Ecuador- the average amount received by the richest quintile can be twice as high as that of the poorest quintile (CEPAL, 2006). UN-INSTRAW's Colombia case study shows that, in the region studied, the richest quintile receives 48% of remittance income. This raises the question of whether multiple policy strategies directed at different income groups should replace the prevailing strategic focus on low-income households. It also suggests that empirical assessments of the impact of remittances should take into account both recipient and non-recipient households, as well as the possibility that women's role as the main recipients of remittance money may vary across class lines.

Another matter to be considered is the extent to which the multiplier effect of remittances benefits local communities rather than other social sectors with a more advantageous market position (i.e., as can happen when only a certain type of employment is being created, or when the earnings derived from increased consumption result in higher profits rather than job creation); as well as whether the multiplier effect is benefiting other regions (i.e., promoting migration towards urban areas, or promoting investments in other regions with less structural problems) or even other countries (i.e., when the multiplier effect leads to increased imports). It is worth noting that, as women generally have a less advantageous market position than men, the multiplier effect will benefit them to a lesser degree.

When analyzing local impacts it is useful to consider different levels: the household as a whole, individual household members (who may not share the same goals or have equal access to benefits), and the community at large (where impacts may vary according class, gender and ethnicity). The conceptualization of remittances as either capital or salary may also lead to very different analytical perspectives and policy initiatives. In most local contexts remittances seem to work as salary, with the surplus used as a substitute for basic services not provided by the State (health, education, pensions). Thus, the amounts available for savings and investments tend to be very small, which severely conditions both the possibility and the types of investments to be made. Likewise, migrant-sending communities are generally characterized by severe structural deficiencies –this being the reason why people migrate in the first place. As Newland (2007) points out:

“The relatively small portion of remittances that is used for investment (apart from human capital investment through education and health spending) reflects not only the immediate consumption needs of poor families, but also the discouraging investment climate for the poor.

UN-INSTRAW cases studies

The flow of remittances has shifted the landscape and everyday life in Vicente Noble, Dominican Republic. The transformation of the town from a small rural community into a semi urban settlement, has modified the patterns of local production leaving aside part of the agricultural activities as main source of income among recipient households.

In addition, the growing economy has promoted a certain economic development that attracts business people from the region who have seen an opportunity to create and expand their commercial activities. Moreover, tourism also has emerged as an important economic activity since migrants and new visitors demand services. Nevertheless, the vast majority of businesses belong to people who did not reside previously in Vicente Noble. Most of the small businesses started with remittances are small shops, beauty salons and some call centers, which largely rely on self or family employment.

Until problems such as bad infrastructure, corruption, lack of access to credit, distance from markets, lack of training in entrepreneurial skills, and disincentives to savings are tackled, it is unrealistic to expect remittances to solve the problem of low investment in poor communities. In the meantime, remittances lift many recipients out of poverty, if only for as long as the transfers continue”.

Therefore, as long as the structural context remains unchanged, remittance-based individual entrepreneurship will have little possibility of success, as investors face constraints that cannot be overcome simply by individual efforts. UN-INSTRAW’s (and other) case studies show that in those circumstances the development impact of remittance-based investments tend to be nil, and that overcoming such limitations requires public interventions, such as:

- Providing orientation and guidelines for investments, which will otherwise follow a spontaneous logic with little possibility of success
- Help changing the structural conditions which inhibit or frustrate investments (chronic rural problems such as lack of irrigation, roads, energy supply, etc.)
- Building up a local development dynamic into which migrants and remittance recipients can integrate their efforts
- Creating alternatives for stable labor participation and decent wages that might offset remittance dependency caused by the lack of other opportunities.

The banking of remittances at the local level raises other questions that demand more consideration than is usually afforded by the ‘remittance-to-development’ paradigm. For instance, the banking of remittances does not automatically result in the increased availability of credit at the local level, as banking institutions may find it more advantageous to channel these funds towards other regions or economic sectors. Of even greater importance is the potential impact of the banking model on both the provision and the social demand for basic social services, such as health and education. The absence of social protection systems is a common denominator of migrant-sending communities, forcing recipient families to invest a significant portion of remittance money in the purchase of such services, and in providing for aging or unemployed relatives. Indeed, UN-INSTRAW’s case studies show –as do many others- that the desire to provide better educational opportunities for their children is a leading factor in many parents’ decision to migrate, especially in the case of women migrants. In this context, the development of remittance-linked privatized insurance systems (health, education, life, retirement...) reinforces the current function of remittances as a substitute for social protection systems, thus deepening social inequalities between recipient and non-recipient households. By promoting market-based alter-

natives at the individual family level, the banking model reinforces the State’s neglect of its responsibility for providing basic social services, while simultaneously undermining the construction of a social (collective) demand for their provision by the public sector. It is worth noting that collective remittances projects often address similar social needs -cemetery repair, road construction, public libraries, and the like- thus furthering the privatization of public responsibilities.

3. Banking remittances: which financial institutions?

The previous discussion suggests that, although there is general agreement on the need to provide financial services to migrants and remittance recipients, no such consensus exists with regards to the type of banking required or the broader development-related assumptions that underlie the banking model. What constitutes a productive investment? Do women and men benefit equally from such investments? Should the banking of remittances function as a private sector substitute or as a complement to public policy? Should the guiding principle be social equality or market efficiency? The answers to these and other questions are contingent upon underlying assumptions concerning the nature of development, the role of public policies and institutions in promoting development and the extent to which the marketplace should be the main or even the sole organizing principle of economic activity, among others (See Working Paper #3 on “The migration-development nexus”). Thus, a critical starting point for the debate on remittance banking concerns what kind of financial services model is more appropriate at the local level. This begins by acknowledging the existence of very different models for the provision of financial services, as well as the advantages and limitations associated with each, rather than assuming a priori that private banking institutions from the formal sector will offer the best results.

The market-driven paradigm with regards to microcredits has been critically analyzed,, particularly in terms of its gender perspective and impacts . The microcredit analysis shows a paradigm shift, where the focus on small-scale institutions with a somewhat social outlook (microfinance paradigm) has given way to what is now called 'inclusive finance'. This paradigm promotes the integration of microfinance institutions into the formal financial market as a way of making private sector institutions (such as commercial banks) more accessible to the 'bankable poor'. While microfinance institutions are characterized by some degree of public financing (provided by the State or donor agencies) and a more democratic and/or cooperative outlook, the 'inclusive finance' paradigm emphasizes the institutions' profitability and sustainability, as their goal is to improve efficiency as a means of obtaining private-sector resources. Therefore, the intervention logic shifts from social considerations to financial profitability (due to the need to adjust to the requirements of financial markets), and institutions undergo changes in size, ownership, and functioning (from small-scale and collective ownership to large-scale and private ownership). Remittances play a key role in the promotion of micro or small-scale productive investments supported by microcredits. The issue here is whether interventions channeled through the formal financial market are as beneficial as those channeled through microfinance institutions which stay somewhat outside market demands. Commercial banks and credit co-operatives, for instance, go about promoting investments in very different ways, and have different impacts particularly in the poorest areas, where structural conditions are least conducive to risk-taking by banks. A key difference between the two is the more democratic nature of the former, which would better ensure that the non-migrant population can participate in and benefit from the development of rural financial infrastructures.

Critical analyses of the impact of microcredits (such as Mayouz, 2006) point out that the benefits obtained by the community as a whole –and

especially by women- will depend on a number of factors, most importantly on the type of ownership of financial institutions and on their operational procedures (interest rates, repayment schedule, demand for collateral, size of credits, etc.). The greatest beneficial impacts on local communities as a whole (including women and the poorest sectors) are generally associated with the following characteristics: flexible operational procedures, in accordance to the needs of beneficiaries; a commitment to the community; and the integration of financial and non-financial services (such as capacity-building, investment counseling, workshops, etc.). Since these non-financial services are not profit-oriented, they are rarely provided by profit-making institutions.

Therefore, the absence of cooperative-type rural finance institutions leads to a reverse correlation between local savings and investment, particularly in the poorest areas. In these areas, savings will be mostly channeled towards the massive purchase of goods, with little impact on individual and community well-being, or else will be transferred to other areas with better investment opportunities (either by the migrants themselves or by the banks), which often results in increased regional disparities. Thus, efforts to promote the banking of remittances and the financing of small and micro-enterprises should carefully take into account the advantages and disadvantages of each type of financial institution.

4. Gender and remittances

Generally speaking, women play a leading role as recipients and managers of remittances, whether the remittance-sender is man or another woman –that is, male migrants usually remit to their wives, and female migrants often remit to the female relative caring for their children (although women may also remit to their husbands, especially if they stay in charge of children and household). Thus women become critical actors in the remittance-to-development paradigm, and understanding differential gender characteris-

tics in remittance use, savings and investments becomes a major prerequisite for the success of local development programs. Women's privileged status as remittance recipients does not automatically translate into increased personal or social empowerment, as the link between the two is mediated by a broad number of factors, including marital status, social class, household composition, the distribution of power within the household, gender norms, access to social services, etc. Moreover, the fact that a woman receives remittances does not necessarily mean that she will decide how they will be used or that she will benefit from them. Thus there is a need to carefully distinguish between who receives the remittance, who is in charge of managing them, and who decides how they will be used.

UN-INSTRAW's case studies indicate that, although in some situations remittances may bolster women's empowerment, the benefits of remittances tend not to be equally distributed within the household. Thus one should be aware of the danger of visualizing households as homogeneous and harmonious units, devoid of power struggles and internal inequalities in the distribution of benefits. The common presumption that investments by women will automatically result in a virtual cycle of increased personal empowerment, increased family well-being,

and improved social and political status should also be critically revised in light of the empirical findings concerning women's entrepreneurship. For instance, UN-INSTRAW's case studies show that women's remittance-based entrepreneurship, while sharing all of the obstacles affecting men, also have distinctive characteristics and must confront additional obstacles, among them:

- Women's generally lower educational levels imply less entrepreneurial skills and result in additional barriers to accessing credit
- Because women tend to spend a higher proportion of remittances on household consumption (especially health and education), and have less access to credit, their investments are usually very small
- Given the small amounts available for their investments, women's businesses tend to be more dependent on unpaid family labor, have a very limited capacity for generating employment, and generally operate within a strategy of family survival rather than market dynamics.
- Following gender norms, women tend to invest in businesses that are considered 'appropriate' for women, such as hair salons, and small food, clothing, accessory stores

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