

Africa's Finances

Africa's Finances:
The Contribution of
Remittances

Edited by

Raj Bardouille, Muna Ndulo and Margaret
Grieco



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Margaret Grieco

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CHAPTER ONE

INTERNATIONAL MIGRATION AND REMITTANCES IN AFRICA: TOWARDS A GREATER ENGAGEMENT OF THE MIGRANT DIASPORA IN FINANCING AFRICA'S DEVELOPMENT

Raj Bardouille

Introduction

International migration is not a new phenomenon in human history. From time immemorial people have moved and continue to do so from their countries of birth to other countries in search of better socio-economic opportunities and higher living standards. In recent years, however, international migration has received increasing attention at national and international levels due in large measure to the rapidly growing numbers of international migrants (defined as those living and working in countries other than their country of birth), coupled with substantial migrant remittances. According to the UN Population Division (United Nations, 2006a), international migrants numbered 191 million in 2005. This is more than double the figure recorded in 1980.

The surge in migratory movements in recent years despite the economic slow down and the tightening of border controls in some destination countries is a reflection of the growing income inequalities and the imbalance in labour demand and supply between migrant sending and destination countries, acting as the pull factors. On the other hand, demographic, economic, social networks, political and environmental factors are pushing and encouraging people to migrate. Other forms of migration, such as increased mobility of students, cross-border workers and international professionals and skilled people, as well as an increase in the flow of refugees and asylum seekers, are also contributing significantly to the intensification in migratory movements. Irregular migration in recent years has also been on the increase, as destination countries tighten up border controls.

Migrants are now found in every part of the globe, some moving within their regions, others moving extra-regionally. What is especially instructive of contemporary international migrants is that, unlike those who migrated to their adopted countries as settlers, most of them now are transnational, i.e. while living

in their adopted countries, migrants also maintain their ties and links with their families and communities in countries of origin. This relatively new dynamic in international migration has been facilitated principally by the revolution in transportation and communication technologies that has made international travel and communications (telephone, electronic communications) accessible and affordable to enable migrants to maintain an ongoing connection and links with their families and communities in origin countries. It is the transnational feature of international migrants in the era of globalization that has also driven the flows of migrant remittances to families and communities in origin countries.

International migration continues to play an important role in national, regional and global affairs. In many developing countries, remittances from migrants constitute an important source of income.¹ A recent report (IFAD, 2007) of the International Fund for Agricultural Development (IFAD), a specialized UN agency, provided an estimated figure of \$300 billion in migrant remittances to developing countries in 2006. Such large volumes of external resource flows into developing countries dwarf other external sources of development financing, such as the official development assistance (ODA) and foreign direct investment. For example, global ODA of about \$106 billion in 2005 amounted to just under one-third of the migrant remittances to developing countries.

In addition to their financial resources, migrants also possess human capital in the form of professional and technical skills, including entrepreneurial and business, and experience acquired in home and host countries; new knowledge; ideas; and social capital, i.e. connections within and between social networks through membership of professional and business associations; cross-cultural values, attitudes and perceptions, among others. Migration of the skilled and educated people from their countries of birth has generally been deemed 'brain drain' which can debilitate and slow down the development process, especially in the developing countries experiencing human resource and skills shortages.

All is not lost with the outmigration of the skilled and professionals. The transnational nature of contemporary migrants suggests that even if they stay abroad, their potential resources (financial, human and social capital), could be mobilized and harnessed for the development of their countries of origin, given the appropriate enabling environment. Indeed some developing countries, such as the

1 There is a growing body of literature on international migration, remittances and development in Asia and Latin America and the Caribbean regions and more recently on Africa, see for example, IOM (2002, 2005); Gammeltoft, (2002); Page and Plaza (2005); Orozco (2003); Russell-Stanton et al. (1990); Sander (2003); Russell-Stanton (1992); Harrison et al. (2004); Ratha (2003); Ballard (2004); Puri and Ritzema (1999); Adams and Page (2004); Tseng and Zebregs (2002); NOMRA (1998); Sander and Maimbo (2003).

Philippines, have consciously constructed their development path around exporting labour abroad. For decades now, the Philippines has trained nurses primarily to work overseas. Remittances from migrants constitute an important development resource for the Philippines. This trend in the state sanctioned export of human capital is also observed in some Southeast Asian countries actively pursuing labour export policy. A growing number of their nationals migrate to the Middle East for skilled and semi-skilled jobs. Also notable are the flows of the skilled and professionals as well as semi-skilled from Central and South America to the USA.

Against a brief overview of the trends and patterns of international migration in Africa, this chapter reviews the nature, magnitude and use of remittances in Africa; discusses the experiences of some developing countries in mobilizing their diasporas² resources beyond remittances, including the role and contributions of diaspora hometown associations and other diasporic interventions to support social and economic development in origin communities and countries; and the enabling policy environment for facilitating a greater involvement of the migrant diaspora in Africa's development, drawing on the experiences of some Asian countries in this regard. The chapter ends with some concluding remarks advancing issues on which further research needs to be done.

Trends and Patterns of International Migration in Africa

According to the United Nations, the international migrant stock of 191 million³ in 2005 accounted for 3 per cent of the world's population. The UN report noted that not all international migrants move from developing to developed countries. There is a significant level of South–South migration as well. For example, of the total international migrants of 191 million in 2005, about 115 million or just over 60 per cent lived in developed countries and 75 million in developing countries. The majority (almost three-quarters) of all migrants lived in just 28 countries (mostly the OECD countries) and with one in every five migrants in the world lived in the United States of America (United Nations, 2006b, p. 12).

Generally, migrants from developing countries to OECD countries are educated, often with tertiary level of education, and skilled people. Some six out of ten educated migrants living in OECD countries in 2000 were from developing countries (*ibid.*). Another feature of international migration in recent years is the growing number of female migrants moving around different parts of the globe

2 The term 'diaspora' here refers to migrants living and working outside their country of birth. In this chapter, the terms 'migrants', 'diaspora' and 'overseas migrant communities' are used interchangeably to mean international migrants.

3 This figure relates to legal migrants and does not include undocumented migrants.

as independent migrants. It is estimated that female migrants constitute almost 50 per cent of all international migrants and they are more numerous than male migrants in the OECD countries, especially in the services sector, e.g. nursing, home care (domestic, nannies and related care giving services), and retailing.

The international migration trends and patterns in Africa are not too dissimilar to those that obtain globally. For example in 1990, out of the total international migrants of about 155 million, African migrants numbered 16.4 million (or 11 per cent) and this increased to 17.1 million (or 9 per cent of the global migrants) in 2005; female migrants accounted for 45.9 per cent in 1990 and this increased to 47.4 per cent in 2005 (United Nations, 2006b, p. 29). Migration from Africa is forced (due to civil conflict and political persecution) as well as voluntary.

The above figures may give the impression that the numbers and shares of African migrants in the global migrant stock are rather modest. In reality, however, the number of migrants from Africa is much larger than suggested by these figures. The IFAD report (2007, p. 9) estimates a figure of 30 million Africans in the diaspora. One of the unique features of international migration in Africa is that it is predominantly intra-regional. For example, South Africa hosts African migrants from Southern Africa (Lesotho, Swaziland, Botswana, Malawi, Zimbabwe and also from other subregions); Côte d'Ivoire from West Africa and Central Africa; and Nigeria hosts Ghanaians working and living there.

Data on intra-regional migration is not always collected or satisfactorily recorded in official data. This is due to weak statistical and administrative capacity in the collection, processing and reporting of data in many African countries. Additionally, the movement of people between some African countries is fluid and as a result such people are not recorded in official statistics as migrants. For example, labour mobility in the West African subregion (ECOWAS) is fluid due to strong socio-cultural ties and also its status as the subregional economic unit. In addition, the incidence of undocumented workers, especially in self-employment, is also significant as cross-border migratory movements are not always checked due to weak capacity in border-control enforcement in many African countries. Thus, official statistics on intra-regional migration in Africa tend to mask the actual migration trends.

International migration from Africa to developed countries, although relatively recent, has continued towards the former colonial countries – United Kingdom, France, Belgium and Italy. More recently, the USA and Canada; the Netherlands and Germany, among some other OECD countries, have also become popular destinations of African migrants. For example, significant numbers of migrants from Ethiopia, Eritrea, Nigeria and Ghana live and work in the USA; from Morocco and the Democratic Republic of the Congo in the Netherlands; and in recent years, migrants from Nigeria, Rwanda, some French speaking African

countries, and Zimbabwe have migrated to Canada. A significant number of African migrants (from the Sudan, Morocco, and Egypt) are also working and living in the Middle East.

Although out migration from Africa compared to other developing regions is of recent origin and occurring in relatively small numbers, it is nevertheless undergoing some important changes. Some of the key ones as noted in Sander and Maimbo (2005) include the following:

- in recent years, migration from sub-Saharan Africa to developed countries has been on an increase. The subregion previously experienced significant inter-regional migration;
- out-migration from Africa to developed countries appears no longer to be limited to the educated and skilled. Increasingly more low-skilled people (a group that previously migrated intra-regionally) are also migrating to developed countries;
- intra-regional migration of professionals and skilled people has been on the increase, with improved economic opportunities and peace and stability in certain African countries, e.g. the post-apartheid South Africa has attracted professionals and skilled people from the region;
- the share of female migrants from Africa is on the increase, a trend observed in other developing regions;
- refugee flows from the African countries experiencing civil conflict are increasing the number of forced migrants both within the continent and overseas.

The above brief sketch on African migration patterns may be helpful in contextualizing and understanding remittance flows to and determinants of remittances in Africa. The section that follows analyses trends in the volume and uses of migrant remittances to origin countries and communities in Africa.

Migrant Remittances to Africa

Notwithstanding the difficulties and complexities in measuring international migrants' remittances, officially recorded flows (calculated as the sum of workers' remittances, compensation of employees and migrant transfers) to developing countries accounted for \$191 billion in 2005, increasing to \$221 billion in 2006 and were estimated to reach \$240 billion in 2007, having doubled from \$116 billion in 2002 (Ratha, 2003; Ratha et al., 2007). It should be noted that the above official data do not include the unrecorded flows of remittances, sent through

informal channels of money transfers, such as personal carriage of cash or goods by migrants, relatives, friends or trusted agents.⁴ Money transfers through informal channels tend to be common practice especially in those countries and communities where access to formal financial institutions is limited. According to the World Bank (2006, p. 85), unrecorded remittance flows can add another 50 per cent or more to the recorded flows. For the developing countries as a whole, official remittance flows more than double the size of net official flows and rising relative to foreign direct investment (*ibid.*).

Table 1-1 provides the regional distribution of the officially recorded remittance flows in developing countries. It may be noted that Latin America and the Caribbean region is the largest recipient of the officially recorded remittances, followed by East Asia and the Pacific, South Asia, and Middle East and North Africa, while sub-Saharan Africa recorded lowest amounts.

The data in Table 1-1 show that remittance inflows to sub-Saharan Africa are much smaller than those in other regions, although they have been on the increase, as are global trends in this regard. One of the reasons for a relatively smaller share of the remittance flows to Africa is that a significant proportion of international migration in Africa, as mentioned earlier, is intra-regional where salaries are much lower than those in developed countries and thus the amounts sent to families in home countries are smaller compared to their counterparts in developed countries. In addition, officially recorded figures do not capture the full scale of remittance flows in Africa, as a significant proportion of the money transfers are through informal channels. For example, a World Bank household survey of the African diaspora in Belgium carried out in 2005 showed that 42 per cent of the remittances to Senegal and 55 per cent to Nigeria and Congo were sent through informal channels (World Bank, 2006, p. 111, fn 8). Anecdotal evidence suggests that more than 50 per cent of the remittances from South Africa to other African countries are sent through informal channels.

While no estimates for unrecorded (official and unofficial) remittance flows globally and specifically for Africa are available, it is estimated that these could be 2.5 times the recorded remittances; extrapolating from the global estimate total remittances to Africa could be 2.5 times the recorded flows (Sander and Maimbo, 2003, p. 7). The estimated recorded remittances of \$11 billion in 2007 for sub-Saharan Africa (see Table 1-1) would give a figure of \$27.5 billion in total remittances for that year. Assuming these trends continue, the cumulative remittances to Africa in a decade could be about \$275 billion, a very significant

4 The best-known forms of informal services are *hawala* in the context of the Middle East and Arab countries and their migrant populations and *hundi* which is connected with South Asia (Bangladesh).

Table 1-1 Remittance inflows (in US\$ billion), 2002–2007

Developing countries	2002	2003	2004	2005	2006	2007*
East Asia and the Pacific	29	35	39	47	53	58
Europe and Central Asia	14	17	21	29	35	39
Latin America and the Caribbean	28	35	41	49	57	60
Middle East and North Africa	15	20	23	24	27	28
South Asia	24	30	29	33	40	44
Sub-Saharan Africa	5	6	8	9	10	11
Total	116	144	161	191	221	240

* Estimated.

Source: Ratha et al. (2007), p. 1.

source of external finance, which requires greater attention in studies and discussions on remittances.

Using the data from the IFAD report (2007), out of the total remittances of \$301 billion (transferred through formal and informal channels) to developing countries in 2006, the regional distribution of these flows was as follows: the Asia and Pacific region received the highest remittances (about \$114 billion), followed by Latin America and the Caribbean (almost \$68 billion); East European region (just over \$50 billion) and Africa (about \$39 billion, of which about \$20 billion in sub-Saharan Africa) (IFAD, 2007, p. 3). In the Asia region, India received the highest (\$24.5 billion) followed by China (\$21 billion) (*ibid.*, p. 11) and in the Latin American region, Mexico received the highest (\$24.2 billion) (*ibid.*, p. 14). The subregional distribution of the almost \$39 billion in remittances to Africa in 2006 is shown in Table 1-2).

It may be noted from Table 1-2 that Northern Africa received remittances to the amount of \$17.6 billion or just over 45 per cent of the total remittance flows to Africa, followed by Western Africa (\$10.4 billion). Within each of the subregions, a few African countries dominate the remittance picture (see Table 1-3). For example, within Northern Africa, Morocco (\$6.1 billion), Algeria (\$5.4) and Egypt (\$3.6 billion) in that order received the highest remittances in 2006.

Table 1-2 Remittances by subregion in Africa, 2006 (in US \$million)

Central Africa	2,690
Eastern Africa	5,929
Northern Africa	17,614
Southern Africa	1,979
Western Africa	10,399
Africa total	38,611

Source: IFAD (2007), p. 8.

The top remittance receivers in the sub-Saharan African region in 2006 (see Table 1-3) were: Nigeria (\$5.4 billion), accounting for almost 26 per cent of the total flows to that subregion, followed by Angola (\$969 million), Ghana (\$851 million), Kenya (\$796 million), and Somalia (\$790 million). The Eastern Africa subregion is dependent on remittances (Somalia in particular which in its current political and economic predicament is highly dependent on remittances). It may be noted from Table 1-3 that several sub-Saharan African countries received more than half a million dollars in remittances in 2006.

Notwithstanding Africa's modest share in the global remittance flows compared to other regions, remittances constitute an important external source of finance for the African economies as may be gauged from the indicators given in Table 1-4.

It may be noted from the data that the average annual remittances of \$44 per capita in Africa exceed ODA per capita, estimated in 2002 at \$27 for sub-Saharan Africa and \$20 for North Africa (OECD, 2004, p. 34, Table 2.3). Since then, although ODA globally and for Africa as a whole has been on the increase, the current level of \$37 (Sundberg and Gelb, 2007) in per capita ODA for sub-Saharan Africa still trails behind the per capita remittances of \$44. The average annual per capita remittances of \$1200 from the African migrant in the diaspora and the remittances figures at the average country level of about 5 per cent of GDP and 27 per cent of exports (IFAD, 2007, p. 9) of Africa are indeed significant for the African economies.

In some African countries (especially smaller economies and post-conflict countries), remittances constitute an important proportion of total GDP. For example, some smaller economies, such as Cape Verde and Lesotho, received a significant amount of remittances, estimated at \$391 million and \$355 million respectively and their shares to GDP were quite significant, 34 per cent and 24 per cent respectively (see Table 1-3). Similarly, in some post-conflict countries,

**Table 1-3 Remittances received in individual African countries, 2006
(in US \$million)**

Central Africa	(US\$ million)	(GDP)
Angola	969	2.2%
Cameroon	267	1.5%
Central African Republic	73	4.9%
Chad	137	2.1%
Congo	423	5.7%
Democratic Republic of Congo	636	7.4%
Equatorial Guinea	77	0.9%
Gabon	60	0.6%
Total	2,690	
Eastern Africa	(US\$ million)	(GDP)
Burundi	184	22.8%
Comoros	85	21.1%
Eritrea	411	37.9%
Ethiopia	591	4.4%
Kenya	796	3.8%
Madagascar	316	5.7%
Malawi	102	4.6%
Mauritius	356	5.5%
Mozambique	565	7.4%
Rwanda	149	6.0%
Somalia	790	–
Uganda	642	6.9%
United Republic of Tanzania	313	2.4%
Zambia	201	1.8%
Zimbabwe	361	7.2%
Total	5,929	
Northern Africa	(US\$ million)	(GDP)
Algeria	5,399	4.7%
Egypt	3,637	3.4%

Table 1-3 cont'd

Northern Africa (cont'd)	(US\$ million)	(GDP)
Libyan Arab Jamahiriya	134	0.3%
Morocco	6,116	10.7%
Sudan	769	2.0%
Tunisia	1,559	5.1%
Total	17,614	
Southern Africa	(US\$ million)	(GDP)
Lesotho	355	24.1%
South Africa	1,489	0.6%
Swaziland	89	3.4%
Total	1,979	
Western Africa	(US\$ million)	(GDP)
Benin	263	5.5%
Burkina Faso	507	8.2%
Cape Verde	391	34.2%
Côte d'Ivoire	282	1.6%
Gambia	87	17.0%
Ghana	851	6.6%
Guinea	286	8.6%
Liberia	163	25.8%
Mali	739	12.5%
Mauritania	103	3.9%
Niger	205	5.8%
Nigeria	5,397	4.7%
Senegal	667	7.5%
Sierra Leone	168	11.6%
Togo	142	6.4%
Total	10,399	

Source: IFAD (2007), p. 8.

Table 1-4 Importance of remittances to African countries

Indicators (weighted average)	
Remittances per capita (recipients)	US\$44
Annual average remittances per migrant (unweighted average)	US\$1177
Remittances as percentage of GDP	5%
Remittances as percentage of exports	27%
Average share of migrants in total population	3.7%
Average share of migrants in countries with a population of under 1 million (unweighted average)	20%
Average share of migrants in countries with a population of over 1 million (unweighted average)	5%

Source: IFAD, 2007, p. 8.

even though the absolute amount of remittances may be small, their contribution to GDP is substantial (see Table 1.3), for example between 11–38 per cent in the post-conflict countries: Eritrea (37.9 per cent), Liberia (25.8 per cent), Burundi (22.8 per cent), and Sierra Leone (11.6 per cent).

The figures in Tables 1-3 and 1-4 demonstrate the importance of remittances to African economies. However, countries that depend heavily on remittances can be hit hard when suddenly the flows of remittances are reduced. Although according to the World Bank (Ratha, 2003), remittances are a reliable source of external financing, in the case of Africa, remittance flows can be volatile as migration is mainly intra-regional and economic and political disturbances in the region can have a profound negative effect on the flows of remittances sent to home countries. For example, remittance flows dropped drastically in Burkina Faso following political and economic crisis in 1999 in Côte d'Ivoire, which hosts migrants from many West African countries, including Burkina Faso. For such remittance-dependent countries, the challenge is to manage remittance flows, while diversifying their economies away from dependence on remittances and ODA.

Another important issue in the context of remittances in Africa is the high cost of money transfers. For example, money transfer costs to African countries are much higher – typically 8–12 per cent (IFAD, 2007, p. 8) of the amount remitted – compared to other regions. While some progress has been made in reducing money transfer costs from North to South due to advances in technology, e.g. telephone transfers, however, the average cost of money transfer remains high from South to South corridors. It is not surprising that remitters turn towards informal

channels of money transfers, especially when the amounts transferred are small, which is generally the case in intra-regional money transfers in Africa.

Two major challenges with regard to money transfer costs face most African countries: (i) the high rates of informality, especially within the continent; and (ii) a financial regulatory environment that restricts licensing of money transfers to a small group of financial institutions, e.g. banks, and a few money transfer operators (MTOs). The IFAD report (2007, p. 9) alludes to the near monopoly by one MTO in Western Africa that handles almost 70 per cent of official payments. In addition, restrictive monetary and financial policies have also created barriers to remittance flows as well as their effective investment.

High costs of money transfers in Africa may be attributed largely to a financial regulatory system that perpetuates monopolies and limits competition among money transfer operators. In addition to the high costs of money transfers, the outreach by financial institutions is limited, especially in the rural areas where most intraregional remittances are sent. Furthermore, the regulatory framework prevents other non-bank institutions, such as micro finance, credit unions, etc. to facilitate such transfers. This is an area that requires attention from policy makers in African countries.

It is encouraging to note that some African countries are using new technologies, e.g. mobile telephony, to facilitate cheaper and faster money transfers (Gupta et al., 2007). For example, South Africa's First Rand Bank recently acquired Celpay, a cell phone banking service provider operating in Zambia and the Democratic Republic of the Congo (DRC). This mobile payment solution provides advanced payment functionality in countries with little payment infrastructure. It is reported that the majority of payments in Zambia and the DRC are made through Celpay. Other examples of mobile payment innovations in Africa include: Glomoney, a product offered by one of the mobile operators in Nigeria. This facility provides payment features on ATM cards from most banks. Safaricom in Kenya is another example of such innovations in mobile payment. The roll-out of a mobile payment solution in Morocco in conjunction with VISA is another example of such innovations in money transfers. Similar initiatives in some other African countries are under way or in production. The Epilogue to this volume elaborates on the development and use of cell phone technology in money transfers in Kenya and other African countries. For certain remittance-dependent households, the speed at which remittances actually reach the recipient can be crucial as delays for such households may result in foregoing the basic daily needs of their family, including emergency health care.

The Uses of Remittances and their Development Impact

Based on some case studies, the amounts sent in international remittances per transaction range between US\$100 and US\$1,000 and an estimated \$200 as the average global transaction value (quoted in Sanders and Maimbo, 2003, p. 73). The above figures are based on research studies on remittances in Latin America and Asia, the largest remittance recipient regions. In the case of African countries, it is difficult to ascertain the approximate value of a single transaction, as the area of remittances at the household level in African countries is not well researched. Based on the average annual remittance figure of \$1,177 per African migrant as given in the IFAD report (2007, p. 8), and assuming the typical African migrant sends money home once a month, the average transaction value would be about \$100.

Based on the findings of a number of household surveys in several countries, the bulk of remittances (about 80 per cent) are used for consumption – typically on meeting the basic needs of family, such as food, education and health services, housing/repairs – and a small proportion in savings and investment, including in small businesses (Gammeltoft, 2002; Taylor, 1999; Sander and Maimbo, 2003; IOM, 2003). For the millions of poor families, remittances constitute a reliable income source and a lifeline, as without such resources their very survival and family welfare could be compromised.

Beyond the immediate effects of remittances on the receiving families, there can also be numerous benefits for the development process at the macro level. For example, remittances are an important source of foreign exchange earnings for many African countries (see Table 1-3), especially those with foreign exchange constraints. According to the World Bank, remittances are less volatile than private capital flows and may even rise during periods of economic difficulties, including natural and manufactured disasters, helping to stimulate vulnerable economies (Ratha, 2003). Remittances are more likely to reach those sections of society and the geographical areas of the receiving countries, which may be left out by ODA flows and foreign private capital investors.

In some low-income African countries, remittances constitute a significant proportion of GDP. As may be noted in Table 1-3, in spite of the relatively modest amounts of remittances received in some African countries, remittances as percentage of GDP are between 25–37 per cent. In some post-conflict countries, their contribution to the development process is quite compelling. Even though the bulk of the remittances received by households are used to fund consumption, as argued in Plaza's chapter (Chapter 2) in this volume, they can generate positive multiplier effects through an increase in demand for goods and services. Such increased demand would create jobs whereby the non-remittance

receiving households could also benefit through additional employment and income opportunities. Osili (Chapter 3 in this volume) argues that the ultimate developmental impact of remittances in the origin country will depend on the uses of remittance flows, i.e. household consumption, investment, and community related projects.

Our current knowledge of the multiplier effects of remittance flows is limited. Julca in Chapter 8 of this volume deals with a model on the multiplicative effects of remittances through an increased demand for goods and services and their potential for development. There is, however, debate in some academic circles on how comprehensive the multiplier effects of remittance could be at the economy level. More work needs to be done to understand how the multiplier effect works at the macro level; and the conditions and enabling environment under which the indirect benefits from remittances could be enhanced at the macro-level.

It is widely recognized that investment in human capital through education and training, health services and nutrition contributes to improved labour productivity. Remittances used by households on education and health services; and nutrition thus contribute to human resource development, which could boost labour productivity, and stimulate economic growth at the macro level as well. There is some evidence to show that remittance-receiving households are more likely to spend on and avail of education and related human development services than those who do not receive remittances (Sander and Maimbo, 2003, p. 63). However, in order to capture the macro effects of remittances, the accuracy and reliability of data collection and reporting is important. Furthermore, remittances may be more effective in a good policy environment (World Bank, 2006), including expanding financial access to wider population; reform in the financial regulatory environment with regards to money transfers; providing infrastructure to induce investment for business development out of remittances and to facilitate micro credit and micro finance organizations to leverage money transfers for economic and business activities.

Beyond Remittances: Tapping the Diaspora's Investment, Human and Social Capital

The discussion in the previous section highlighted the important contribution of migrants through remittances (financial and goods) to the welfare of their families, and also the potential positive multiplier effect of the use of such remittances by recipient households on a wider economy level, including on non-remittance receiving households and communities in origin countries. However, beyond their financial contribution to families in origin countries, migrants are also endowed

with other resources, such as investment capital, human capital (knowledge, professional and entrepreneurial skills) and social capital (social and professional contacts and networks, exposure to cross-cultural values, new attitudes, including those relating to work ethics, ideas and the like). Mohamoud in Chapter 11 of this volume elaborates on the various types of human and social capital of the diaspora that can be mobilized for Africa's development.

This section briefly reviews the initiatives and programmes of some developing countries towards mobilizing their diasporas' resources for the development of home countries and how some of these experiences could be replicated in Africa. It also discusses some of the mechanisms of the diaspora engagement (individually and collectively), for example, through hometown associations, business and professional networks, and philanthropy, in the social and economic development of the communities and regions in origin countries.

Government Initiatives in Seeking Diasporas' Contribution in Home Country Development⁵

Notwithstanding the increasing volume of individual remittances to families in origin countries, the diasporas, especially the large and established ones (for example, the Indian, Chinese, Mexicans), are also an important potential source of FDI, outsourcing, trade, technology transfer as well as social capital for origin countries. It may be noted that not many migrant sending countries until recently had any clear strategy for engaging their diasporas in home country development. This, however, is changing as governments in migrant sending countries are increasingly recognizing the importance of migrant remittances, which are significant and increasing in magnitude, and other resources of their diasporas. This section briefly reviews the initiatives of some migrant sending countries in forging links with and mobilizing the resources, beyond remittances, of their diasporas and temporary migrants for development in home countries; and how African countries could replicate some of those experiences.

Some governments are actively reaching out to their diasporas for their investment capital by providing them with incentives and special concessions. For example, in the wake of the international sanctions on India following its nuclear test in 1998, India was faced with an acute economic crisis. Indian government appealed to its diaspora for investment by floating the Resurgent India Bonds in 1998. The bonds, which could only be subscribed to by non-resident Indians (NRIs) and people of Indian origin (PIOs), were denominated in three major

5 This section draws heavily on a paper by Newland (2004).

international currencies (US dollars, British pounds sterling and Deutchmarks); for a duration of five years and offered attractive interest rates than the prevailing market rates. The bonds raised \$4.3 billion⁶ for the infrastructure development in India. The infusion of capital of such magnitude was timely and helped India weather the shocks of the Asian financial crisis of the late 1990s. Encouraged by the success of the Resurgent India Bonds, the Indian government repeated this initiative and in 2000 issued the Millennium Bonds to raise capital from its diaspora. This initiative raised about \$3.2 billion for investment in growth-intensive industries and high value debts.

The government of India has established a dedicated unit (NRI Division) in the Ministry of External Affairs with the objective of promoting links between India and its diasporas. One of the ways the government is strengthening such links is through providing information on business and investment opportunities in India. The Ministry has established an Investment Information Centre, which is a free single-window agency for promoting investment in India by NRIs and PIOs. A dedicated website is set up for overseas Indians (called the 'NRI corner'), which provides updated information and analysis on the NRIs' current levels of engagement in the various investment areas in India; and current and future investment opportunities for NRIs in business, portfolio and real estate investment; bank deposits and other financial products; insurance schemes, health and education facilities, among others.

Newspapers, such as *India Abroad*, which has a large circulation in the USA, and magazines, including in the provincial languages, are circulated in countries hosting large overseas Indian communities. Such newspapers and magazines provide updates on the social, political and economic developments in India, including investment opportunities and the special concessions and privileges for NRIs and PIOs. Newspapers and other print media are important channels for encouraging the diaspora to stay connected with their country of origin as well as in mobilizing their investment resources. Dual citizenship for overseas Indians in certain countries is yet another step aimed at promoting deeper ties with its diaspora.

In recognition of its large diaspora (estimated at 35+ million), the Chinese government has actively sought to maintain links with the overseas Chinese communities. Since the implementation of the post-1978 economic and fiscal reforms, government policy towards the Chinese diaspora has been dynamic and based on developing business relations. The government strategy has focused on

6 For a detailed review of the Resurgent India Bonds and the initiatives of other developing countries in mobilizing the resources from their Diasporas, see Chander (2001).

attracting the financial capital of and promoting bilateral trade through its widely dispersed overseas Chinese communities. In the post-Mao era of economic and fiscal reforms, regulatory framework for investment has been simplified; labour laws made more flexible; efficient administrative procedures and incentives and concessions in taxes and fees have paved the way for attracting FDI, including from the overseas Chinese communities.

In addition to putting in place an enabling business environment, the government of China has also invested significantly in the physical infrastructure and human resource development, which are key elements in the development of the manufacturing sector. China attracts a significant proportion of the FDI to developing countries and its share is growing. It is estimated that about 50 per cent of the FDI to China comes from the overseas Chinese communities,⁷ suggesting an active engagement of the diaspora in China's development. The burgeoning manufacturing sector in China owes its success in no small way to the substantial and increasing amounts of investment resources through FDI, including from the diaspora.

Notwithstanding its significant contribution to FDI, the Chinese diaspora is also engaged in promoting bilateral trade through its diverse business networks (for details on how the Chinese business networks and other diaspora networks promote bilateral trade, see Chapter 2 by Plaza in this volume). Also, the overseas Chinese represent a huge market for Chinese products, which are also popular among host communities. It is not unusual to find Chinatowns (with shops retailing primarily a wide array of Chinese products) and Chinese restaurants in almost every part of the globe and even in some foreign cities where the ethnic Chinese population may be relatively small.

The Philippines also has a large diaspora and temporary migrants living and working abroad. The government's strategy towards its overseas communities focuses on maximizing income from the remittances to the households. In this regard, emphasis is on reducing the cost of money transfers and stabilizing exchange rates so that in the end net flows of remittances are maximized. The Philippines government has also introduced some initiatives including by some local government units to attract the investment resources from its diaspora and temporary migrants to support socio-economic development projects in the country. It does so through, for example, providing information to its diaspora on the various projects for funding and also through organizing visits by its overseas communities to homeland to explore investment opportunities, including in the

7 A detailed discussion and review of the diaspora engagement in six case countries is covered in Newland (2004).

real estate. The government recently introduced a dual citizenship law allowing overseas Filipinos to vote in national elections.

Taiwan, too, has a large diaspora overseas. Outward migration from Taiwan was particularly high in the late 1970s and early 1980s, when a large number of the professionals and educated left Taiwan due to political tensions surrounding the status of Taiwan as a sovereign country. Government policy on the diaspora has focused on attracting human capital back to Taiwan. In this regard, a number of initiatives have been taken to forge links with the diaspora, such as government funded and sponsored visits of overseas Taiwanese for conferences to link them with their counterparts in Taiwan; special incentives and privileges, such as attractive working conditions, housing, education, health and recreational facilities for the professionals and skilled overseas Taiwanese interested in returning and contributing to Taiwan's development. The various incentives and privileges offered to overseas Taiwanese have been made possible due to the sound economic performance of the economy over the last 25 years or so, thus enabling the government to allocate resources for funding the initiatives and programmes for attracting the diaspora back in the service of their home country.

The above brief overview of the diaspora engagement demonstrates that there are different ways migrant sending countries pursue different strategies in their attempt to reach out to their overseas communities to mobilize their support in homeland development. The strategies chosen depend on the particular aspects of the resources and resourcefulness of the diaspora that a government wishes to attract and mobilize for social and economic development in origin countries. Regardless of the strategies deployed by governments, they all have a common objective, i.e. to maintain, rebuild and promote links with migrant communities abroad, often playing on patriotic sentiments and nationalism. In adversity and economic stress and difficulties, homeland governments are inclined to appeal to their diasporas on grounds of patriotism. The launching of the Indian government's Resurgent India Bonds is an illustration of an appeal for help from its diaspora in times of economic difficulty.

Although many African governments have not as yet developed an explicit strategy towards engaging their diasporas in the development of their countries of origin and the region, there are some encouraging developments in some parts of Africa in terms of changing attitudes and perceptions towards the diaspora. Many African countries have established some sort of government structure, e.g. appropriate ministries/government departments, dedicated units/departments, responsible for establishing and strengthening the diaspora relations and outreach with the home countries. Others are pursuing more dynamic and positive policies and strategies towards diasporic engagement in the development of home countries. Ghana, through its Embassy in Washington, DC, has undertaken to

prepare a skills data bank of overseas Ghanaians with the objective of linking their skills to the service of their country of origin. Some African countries have introduced dual citizenship for their overseas communities living and working abroad to encourage them to stay connected through regular visits and exploring business and investment opportunities in their home countries. Some African politicians during their official visits overseas try to meet with the diaspora groups to share updates on political and economic developments, including the potential areas for diasporic investment, in origin countries.

In 2004 the African Union designated the African diaspora⁸ as a sixth sub-region of Africa. This is in the spirit of the African Union's Vision and Strategic Plan 2004–2007, which places the diaspora at the centre of its aspirations to maximize the benefits of migration for the continent's development. This continental-level political expression and recognition of the potential contribution of a larger diaspora to Africa's development may inspire some African governments to develop appropriate strategies, learning also from the initiatives and programmes of some of the developing countries regarding fostering links between the diaspora and home countries.

Diaspora Engagement in Communities and Countries of Origin⁹

It is widely recognized that members of the diasporas, individually and collectively, do maintain some sort of link with their families and communities in their home countries, ranging from a personal level of family and community ties to international financial markets. Beyond the family level, the diasporas through their organizations or associations contribute (financially and in kind) to the development of their communities and countries of origin. Several chapters in this volume discuss the various ways (formal and informal) the African diaspora contributes on their own to their home communities and countries (see for example, Chapter 12 by Mohamoud, which explores the different pathways used by the African diaspora to transfer social remittances; contributions by Menkhaus (Chapter 10), Brinkerhoff (Chapter 12) and Kleist (Chapter 5) in this volume allude to the role of the diaspora in the resolution of civil conflict and peace building including post-conflict development and good governance). Some of

8 The African Union defines the diaspora as all those people of the African descent (historical and contemporary) working and living in different parts of the globe. However, in this volume, the term 'African diaspora' refers to the migrant diaspora, who still have some ties with their families and communities left behind

9 For a detailed review of the diaspora engagement, see, among others, Newland (2004).

the ways the diasporas engage themselves in their home country development are through Hometown Association, business and professional networks and philanthropy.

Hometown Associations

These are generally formed as voluntary associations of groups of migrants belonging to same geographic area/region, ethnic group, tribe, language, alumni, profession, etc. Motivated by their desire to help their communities in origin countries, they pool some of their resources for certain projects they think would help their communities.

Although there are numerous diaspora hometown associations globally, involved in the development of origin communities and regions, one of the most often cited in the literature on home town associations is the Mexican hometown association of Zacatecas. It may be noted that the majority of Mexican migrants to the United States come from the state of Zacatecas. Due to their large numbers, members of the Zacatecan diaspora have formed hometown associations to pool resources – their own contributions but also leveraging cooperation from the municipal, state and federal levels, for the communities in their home region. The Zacatecan diaspora's initiative, known as '*tres por uno*', is a dollar per dollar matching programme, i.e. each dollar raised by the Zacatecan diaspora is matched by a dollar from each of the three government layers – the municipal, state and federal. Thus, one dollar from the Zacatecan diaspora in the final analysis mobilizes three additional dollars through government cooperation. (see also Chapter 2 in this volume by Plaza, which discusses, among others, the role of hometown associations in the development of their communities of origin). The funds raised in this way are for use in education, health, housing, recreational, small business and employment generation activities.

Often, there is lack of consultation between hometown associations (the donors) and the recipient communities about the projects developed and supported by the diaspora individually as well as collectively through home town associations. Sometimes, the goals set by migrants for their home communities may not necessarily reflect the priorities of those communities. Greater involvement of recipient communities in the needs assessment and project implementation can go a long way in improving and optimizing the impact of such initiatives and efforts towards the development of home communities.