8 Financial Globalization and the Mechanisms of Migrants' Remittance: Formed by Supply or Demand?

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8.1 Introduction

Governments began to give fuller attention to remittances in the 1990's when their sum total topped the level of Official Development Assistance (ODA) and Foreign Direct Investment (FDI) (Meissner 1993). A decade later remittances had become a new development 'mantra' in global policy frameworks. Following the Post G-8 summit of 2004 in Sea Island there was sudden worldwide activity to improve the infrastructure for remittances and ensure swift safe transfers. In 2007 the World Bank's Committee on Payment and Settlement Systems (CPSS) brought out the General Principles for International Remittance Services which were later endorsed by the G-8, the G-20 and the Financial Stability Forum. Supported by a mix of international financial institutions, NGOs and sending states, this emerging financial infrastructure is comprised of norms, standards and agencies dedicated to manage migrants' remittances for development. Its underlying rationale is that greater inclusion of migrants into financial institutions would enhance the effectiveness of remittances. These initiatives intend to improve the functioning of existing remittance industry by instituting standards, improving transparency, encouraging competition, and easing some of the stifling regulations which otherwise hamper its functioning. Formalization is expected to reduce the costs of remittance transfer, hence increasing the average flows into developing countries. Fuller use of formal banking structures and securitization of future flow was expected to address capital scarcity, promote financial inclusion of the poor and boost financial sector development in countries of origin. Superseded by the unfolding global financial crisis since 2008, this rationale is now subject to criticism. The concerns about reduced remittances due to job losses and return migration to countries of origin in the South[1], raise two main issues: one is the scientific validity of the much touted role assigned to migrants' remittances in development, and the other is the claim that formalization has an advantage over the informal systems of service provision which are characterized by personal connections, a low level of bureaucratic formality and a wider coverage compared with banks.[2] These two issues have broad economic, social and ethical implications and urge a more critical understanding of the relationships between financialization, migrants' remittance and 'development' in the South.

Mainstream theory describes the rise of remittance institutions as evolutionary, correcting market failures and removing possible hurdles in free flow of capital (Fajnzylber/López 2008). This chapter, however, takes the perspective developed by Hudson (2008: 317) who views the financialization process as being built on a continuous search "to find new income streams that can be securitized".[3] Migrants' remittances constitute one of these new income streams. By reviewing the discourses on, and practices of, governance of remittances the chapter discerns a deeper convergence of different lines of interests underpinning the design of financial services for migrant

1 World Bank estimates projected a drop of 5–8 per cent in global remittances in 2009. *The Economic Times*, 3 June 2009; and even countries such as India, which claimed resilience in remittance flows, are experiencing return of migrants. Press Trust of India, 2009: "About 150,000 Indians Return from UAE Due to Recession" See at: <http://www.ndtv.com/news/india/about_15_lakh_indians_return_from_uae_due_to_recession.php> (8 July 2009).

2 Some examples include the Hundi and Hawala system prevalent in South Asia, Fei Ch'ien (flying money) in China, Guanxi in China, Phone Kuan in Thailand, 'door-to-door' in Philippines (Passas 2004).

3 Securitization is a process that involves the isolation of a pool of assets or rights to a set of cash flows and the repackaging of the asset or cash flows into securities as instruments representing either ownership (stocks), a debt agreement (bonds) or the right to ownership (derivatives), which are traded in capital markets.

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workers. Apart from the interests of banks, the formalization of these services also meets two strategic objectives of states: 1) declining ODA and FDI volumes which have exacerbated the need of some labour-exporting countries to secure migrants' remittances to finance development; and 2) the post-9/11 fear of 'terror-linked' financial flows which make it vital that remittances be included in the formal banking systems to pre-empt any use for destructive purposes.

Examination of the experience of three countries (India, Philippines and Indonesia) shows a political-economic dimension behind this process. The emergence of new architecture for migrants' remittances appears more supply-driven, stimulated by political interests which dominate the agenda of migrants' remittances but are weakly supported by evidence in real life. To the majority of migrant workers who are undocumented/illegal migrants, the formal financial system has little to offer. The focus of the international financial system should be more on adapting to migrants' interests to devise better remittance systems rather than drawing the migrant workers into the ambit of financial capitalism based on unfounded optimism.

8.2 Financialization and Securitization: Migrants' Remittances in the New International Political Economy

Financialization has been one of the key aspects of globalization. Frieden (1995) offers a working definition of financialization as a process wherein the volume of capital movement surpasses that of trade in goods and services. It has meant increasing integration of financial markets across the globe, triggered and emboldened by changes in technology and deregulation. This process creates a need for multiple institutions and since the 1970's there have been significant institutional changes furthering the dominance of finance capital over industrial or commercial capital (Pineault 2001).[4] One clear characteristic of this process is a constant lookout for newer sources of finance. Leyshon and Thrift (2008: 97) write: "Financial capitalism is dependent on the constant searching out, or the construction of, new asset streams, usually through a process of aggregation, which then – and only then – allows speculation to take place".

Hudson (2008: 315) argues that the financialization of remittances is driven by similar needs to acquire previously untouched capital and thus the need to "bring them into the global development architecture". He regards it as yet another attempt to surmount the drop in development finance and, perhaps, find newer sources to fund the Millennium Development Goals. Raghuram (2009) in her study "Which migration, what development" also calls remittances the 'lodestar' around which a whole remittance development industry is being formed. This process involves a large number of non-state actors such as NGOs and international organizations all working to strengthen and perpetuate the process in their unique capacities. One notable aspect of the financialization of remittances is creation of a rhetoric eulogizing remittances as a source of development finance, with with a magnitude surpassing FDI and allegedly being counter-cyclical and well targeted. The international institutions have played a leading role in creating and popularizing this view.

Until the first years of this decade efforts to manage remittances were limited to major migrant sending countries such as Mexico, Philippines, Colombia, Turkey and India. Since then the formalization drive has gained greater momentum and spread out to untouched quarters. For instance, a number of foreign banks moved into the untapped markets of Eastern Europe. Karafolas and Sariannidis (2008) present the case of Albania where a number of Greek and Italian banks moved in to manage remittance flows. These authors argue that the increase of remittances flowing through formal channels (according to figures given) relates to the proliferation of Greek and Italian bank branches within the country.

According to Hudson (2008) the current formalization effort by banks may be divided into two broad categories: one aimed at expanding retail outreach to cover more remittances and bring them into the financial mainstream; another to leverage cash flows and generate more capital through securitization.

Under the first category the key intervention has been the reduction of remittances transfer costs, given

4 Pineault (2001) reviews the scholarship on financialization to show how it has moved from the orthodox Marxian theory of money and the relations between bank and industrial capital adopted by Rudolph Hilferding (1981) to the study of the economic institutions dealing with finance capital, increasingly drawing from the ideas of heterodox economists. Regulation school theorists such as Robert Boyer and David Harvey have been leading contributors to recent institutional analysis of financial systems highlighting the politics behind them. See at: <https://depot.erudit.org/bitstream/002332dd/1/document-2002-01-pineault.pdf> (30 April 2010).

that they constitute a major disadvantage for formal vis-à-vis informal financial institutions. Transfers via official bank channels are often administratively burdensome and remain a closed option for migrants who are unable to open accounts in their countries of residence owing to their temporary situation or (often) illegal/undocumented status. Private companies generally charge high fees with the average cost of official transfer being between 13 and 20 per cent of the total. Informal channels, while cheaper, can incur costs due to risks such as fraud and theft.[5]

The cost of transfer is the key criterion in the choice of a remittance service provider (World Bank 2007). Most non-governmental organizations, international organizations and financial institutions have focused on bringing these costs down to attract remitters by making the prevailing rates offered by different remittance service providers (RSPs) available on the web and allowing consumers to compare prices. These efforts help in increasing transparency, encouraging competition and better choice. Extending the retail outreach, requires forging links with Micro Finance Institutions (MFIs) and making them serve as complement banks: they are often present in places that banks fail to reach and have the expertise of pooling and leveraging small amounts of money (Fritz/Ambrosius/Stiegler 2008). Many MFIs are not authorised to deal with foreign exchange and so a link-up with authorised dealers helps them actively engage in international transfers (Fritz/Ambrosius/Stiegler 2008). This line of connection between the financial institutions, migrants and MFIs is proposed as the win-win solution where the financial institutions (FIs) gain from greater access to hard cash and more clients, and migrants benefit from their financial aptitude and astute money management abilities.

Under the second category, the leveraging of remittances and enhancing their growth potential, banks also placed in a better position than the money transfer operators (MTOs) or the informal service providers. Specialists argue that banks are able to attach a broad portfolio of financial services to remittance transfer services (Alberloa/Salvado 2006; Avila/Schlarb 2008). One of the ways banks offer to increase the benefits from remittances is through securitization of future flow receivables. Ketkar/Ratha (2001: 1) explains this operation as follows:

> In a typical future flow transaction, the borrowing entity (originator) in a developing country sells its future products (receivables) directly or indirectly to an offshore *Special Purpose Vehicle* (SPV), which issues the debt instrument. Designated international customers (obligors) are directed to pay for the goods they import from the originator directly into an offshore collection account managed by a trustee. The collection agent makes principal and interest payments to lenders. Any funds left over are forwarded to the originator.

The authors point out that securitizing remittances helps banks overcome the 'sovereign risk' or what Hudson (2008: 327) term as the fear of "governments defaulting on their loans unilaterally". Because the remittances never actually enter a country once they are pledged to the SPV, these instruments often get a relatively high rating or investment grade even when the rating of that country is at "sub-investment grade" (Hudson 2008: 327). As a result, the issuers of remittance-securities are able to raise more money in the international capital markets. Mexico was the first country to implement securitization in 1994. The value of securities issued using remittances as collateral reportedly then increased more than 40 times during the following ten years (World Bank 2006: 103).

At international level remittance management presents a smarter option vis-à-vis promoting or curtailing migration openly as it is more politically palatable (López-Cordova 2006: 37). There is a fresh impetus for research on better utilization of remittances funded by government-backed development agencies and international funding agencies in the major migrant receiving countries. For labour importing countries by focusing on appropriate utilization of the remittances in the local economy of migrants' origin remittance management appears more politically correct than blatant anti-migration policy. For labour-exporting countries the motivation is clear: effective remittance management helps them service foreign debts, maintain a healthy trade balance and improve their credit rating in international markets. Rupert and Solomon (2005: 83) note the following: "Temporary migration, far from being inconsequential because of the eventual return of the migrant, is transforming the boundaries of sending states, altering the calculus of state policy makers, and serving as a vital source of the external finance necessary for servicing debt and imported oil."

5 See at: <http://www.iom.int/jahia/webdav/site/myjahiasite/shared/shared/mainsite/microsites/IDM/workshops/Trade_2003_12141103/issue_day2.pdf>. Passas (2004: 21) reveals that remitters paid 0–1.5 per cent of the remitted amount using the informal system, or a tiny fraction of the sum as compared with the charges made by private companies. It is important to note that there is lack of consensus on the informal systems and methods used in assessment of costs.

Table 8.1: Formal vs. informal methods of transfer. **Source:** Passas (2004: 21).

Formal	Informal
10-20 per cent cost	0-1.5 per cent cost
Service to main cities	Service to remote areas
Detailed records kept	Minimal/no records
Receipt to sender	No receipts to sender
Currency Transaction Report (CTR), Suspicious Activity Report (SAR) filed	No reporting to authority
Collection and delivery at agency premises	At home pick-up and delivery service
Transfer in days/weeks	Transfer in hours
Agency specialised in money services	IVTS mixed with other business

Another important explanation for the wave of formalization lies in the security concerns that arose after the 9/11 attacks on the US. De Goede (2005) points out that in the US Patriot Act 2001 some of the most drastic and important provisions were in the area of financial regulation. 'Data mining' of financial transactions using sophisticated information technology became an important part of the risk management and prediction of terrorist activities, and this rather hit the informal remittance industry.[6] Given that informal service providers account for more than 50 per cent of the remittance industry (Passas 2004), the post-9/11 practices hit the informal networks of money transfers particularly hard. What makes them susceptible to crackdown under the war on terrorism is their poor compliance with formal regulations as a way of keeping operational costs low. Passas (2004) terms them "informal value transfer systems". Characterized by personal connections, these traditional transfers cater to the large section of undocumented migrant workers and neither issue transaction receipts nor maintain records of transactions. Many have existed for centuries, pre-date the formal banking system and are legitimate. They have a much wider coverage compared with banks, and consumers find it much more convenient given that money is collected from and delivered at home. Unskilled migrant workers who would be intimidated by the formalities of banks find it much easier doing business with informal service providers.

De Goede (2005: 38) points out how "the move towards computerized data mining aims to reduce terrorist danger while presenting a commercial opportunity". Heavy emphasis on bringing these informal networks under mainstream financial structures (so that suspicious transactions could be identified and terrorist behaviour predicted) is neither backed by evidence nor shown to be effective (Passas 2004: 36). Contrary to popular belief, much of the money used by 9/11 terrorists was transferred using formal channels (Passas 2003). The 9/11 Commission report by Roth, Greenberg and Willie (2003)[7] also confirms that no amount of surveillance would have helped differentiate the transactions made by 9/11 terrorists from routine transfers. It is possible to argue that the current drive to regulate the informal remittance industry comes more from commercial interests than is formally acknowledged. In its attempt to reconcile the need for new financial regulation with the continuance of de-regulated financial markets the deregulation drive shows its incoherence.

In the wake of the current economic crisis efforts for managing remittances have found fresh credibility in what is termed an 'innovative financing strategy' for the global South. Analysts claim that halving the costs of transfer could result in an extra 12 to 15 billion USD for development in the global south (*The Economic Times*, 12 June 2009).[8] When examined in depth, much of what is written or said about remittance management – efficiency, transparency, competition, accountability – is a reflection of the dominant neoliberal development paradigm. Remittance management is now helping and being helped by financial liberalization around the world: it addresses the inconsisten-

6 Especially the *Hawala* system prevalent in South Asia came under heavy surveillance as being possible clandestine webs of money laundering and terrorism financing.

7 See at: <http://www.9-11commission.gov/staff_statements/911_TerrFin_Monograph.pdf> (1 May 2010).

8 *The Economic Times* 2009: "G8 Eyes Halving Remittances Transfer Costs: Italy", 12 June 2009, See at: <http://economictimes.indiatimes.com/News/International-Business/G8-eyes-halving-remittances-transfer-costs-Italy/articleshow/4650143.cms> (1 May 2010)

cies and hurdles that might obstruct the smooth flow of capital across borders. The way the logic is presented, the activity of the financial markets and the international response to possible sources of market failure appear as instances of self-organization where the markets – being 'complex adaptive systems' – are only heeding the demands made by the remittance industry. The current order in remittance markets is presented as "spontaneous or emergent and is a result of human action and not execution of human design" (Markose 2003: 2). The role the international organizations play is only to correct market failures and enable the smooth functioning of the industry. There are, however, other aspects indicating that this depiction is far from fair and complete. For instance, the current bailout packages offered by governments to save sinking banks makes the magnitude of remittances (337 billion USD annually[9]) seem insignificant. This comparison is helpful in putting these issues in perspective and when examining the broader global development finance dynamics.

8.3 The Science behind Remittance Management

At the global level there are essentially four emerging elements of formalization of remittances: 1) concerted efforts to channel remittances through formal financial institutions; 2) construction of regulatory mechanisms around the transfer of remittances; 3) incorporation of remittance multipliers such as securitization into formal banking channels; and 4) efforts to improve data on remittance flows. Each of these elements has been defended by orthodox economists with nuanced differences about the impact of remittances but generally supportive of formalization. Heterodox perspectives emphasise power relations in a political-economic context and caution against a purely instrumental approach.

8.3.1 Remittances in Orthodox Economic Theory

The standard macroeconomic approach has dealt with remittances as part of international transfers and treated their impact on aggregate expenditure, domestic savings and national output accordingly. When remittances flow into an economy both expenditure and savings are expected to increase. Higher savings are expected to cause increased availability of resources, which leads further to reduced domestic interest rates, inducing investment. This, however, is the most stereotyped model of how remittances work.

In more recent analyses the impact of remittances on the economy is divided into short- and long-term ones. Short-term studies focus on the impact of remittances on exchange rates, domestic interest rates and domestic savings. One debate that has occupied this field is whether remittances have a 'Dutch disease'[10] effect on the economy or lend growth stimulus to capital-starved economies (Loser/Lockwood/Minson/Balcazar 2006).[11] A bulk inflow of remittances, like other sources of international capital flow, causes appreciation of the real exchange rate and reduces its competitiveness in the international arena. López-Cordova and Olmedo (2005: 23) point out that this is similar to the classic 'transfer problem' where a sudden inflow of remittances may initially improve the terms of trade and overall welfare but affect the export competitiveness of the country adversely.

Remittances held in banks in foreign currency can be a further cause of concern. Fritz, Ambrosius and Stiegler (2008) point out that in many developing countries citizens often prefer an international currency because of little faith in the local currency, and that once a foreign currency gains weight in local monetary transactions the trend becomes difficult to reverse. This phenomenon called dollarization, first noted in Latin American countries, has serious adverse consequences. Because of dollarization central banks do not have the same hold on their money in circulation and can lose control of an important macroeconomic instrument, that is: monetary policy. For lack of faith in their domestic currency individual migrant workers prefer to keep their savings in foreign currency. Macroeconomic management would require otherwise and thus such preference has become a policy concern (Fritz/Ambrosius/Stiegler 2008).

In the long-term models the impact of remittances is analysed in terms of their impact on productivity

9 IOM 2008. See at: <http://www.iom.int/jahia/Jahia/op/edit/cache/offonce/pid/1674?entryId=20275> (1 May 2010)

10 The phenomenon refers to appreciation in local currency because of new influxes of large amounts. The term draws its name from the effect a sudden discovery of gas reserves in the North Sea had on the Dutch economy some decades ago. Increase in gas exports caused an appreciation in the local currency affecting other exports and competing imports adversely. The term has since been used to describe similar effects elsewhere.

11 See at: <http://www.g24.org/lose0906.pdf> (1 May 2010).

and inequality in the economies of origin countries. A study by Chami, Jahjah and Fullenkamp (2003) shows that under asymmetric information remittances are likely to have a negative impact on growth in some of the labour-exporting countries; however, the impact on inequality is ambiguous. While some empirical studies show that remittances have a trickle down impact and stimulate local economies (Mendola 2006),[12] others show that benefits from remittances are limited to the few receivers and thus exacerbate inequalities within a region (Hoddinott 1994; Saith 2001). Most policy studies focus on the short-term dynamics of remittances with the aim of designing adequate monetary and fiscal policies to lessen the adverse impact and strengthen the positive effects. When highlighting the impact of formalization, the remittance-enthusiasts largely limit themselves to short-term dynamics.

The migration literature is replete with critiques of remittance-led growth mostly focusing on its non-sustainable nature. There is limited evidence of positive impact of migration on sustained economic development. Castles (2007)[13] for instance, points out the case of Mexico to show how both remittances and *maquiladoras* only deepened the dependence of the country on the US without bringing about any genuine development. Among the major migrant sending countries Turkey is the only one to have achieved a sound level of economic development but scholars doubt that this development was due to better remittance or migration management. Castles (2007) also points out that failure of Turkey to harness remittances during the 1970's and 1980's for industrial growth casts serious doubts on the efficacy of the remittance-led growth discourse.

The above discussion shows the imperfect science of remittance management. The drive to create institutions for the management of remittances chooses to remain ignorant of the past and the lessons it has to offer. The public-policy driven accounts focus on learning from successful initiatives what they term as 'best practices' and replicating them globally. It becomes imperative to understand the reasons behind the political insularity of the current techno-managerial discourse on governance of remittances.

12 See at: <http://www.sussex.ac.uk/migration/documents/mwp40.pdf> (1 May 2010).

13 See at: <www.imi.ox.ac.uk/pdfs/WP7%20Comparing%205%20countries.pdf> (1 May 2010).

8.3.2 Political Insularity of the Formalization Discourse

Since the beginning of the 1990's governance literature has increasingly gained importance among development practitioners and academics (Smith 2007). Many reasons account for this ascendancy. The end of the Cold War, the proliferation of NGOs and the emergence of relatively new concepts and practices plus the human rights agenda, illustrate some of the driving forces behind this phenomenon (Weiss 2000). These developments have also elicited new forms of conceptualization whereby the term 'governance' is no longer associated just with the state and the machinery of governments but now with all sorts of networks and informal institutions which co-exist and interact with the public sector in any organised polity. The shift from government to something beyond the realm of actual governments has significantly altered the manner in which we conceptualise governance. As Kjaer (2004) points out, if governance is understood as the setting, application and enforcement of the rules of the game, then the institutional grounding of the term is unavoidable.

Hout and Robison (2009) point out that two distinctive approaches to governance can be detected across all fields. World Bank publications, major international donors/organizations and national developmental agencies tend to define and analytically treat governance as a technocratic construction exhibiting research and policy concerns about the design, sequencing, implementation and enforcement of institutional reforms. As such, governance epitomises a 'techno-managerial' fix aimed at the institutional engineering of many areas – such as anti-corruption, decentralization, accountability, transparency and rule of law – which complement and strengthen the efficiency of market institutions. This instrumental view of governance, as they argued, seems to facilitate a notion of insularity where the governance agenda provides a platform to circumvent direct political issues in societies.

The second approach to governance is a perspective that emphasises the significance of asymmetrical relations. The concept denotes an acute understanding of "conflicts over power and wealth underpinning the establishment of authority in market societies" (Hout/Robison 2009: 5). Problems encountered within processes of institutional reform cannot be simply attributed to capacity-building considerations or to prevailing weak institutions. They reflect power dynamics embedded in a particular context. Govern-

ance in this analysis therefore implies a direct engagement with the politically contentious issues existing in any polity.

The insights drawn from the literature on the New Institutional Economics (NIE) and its equivalent in the field of political science or Rational Choice Institutionalism (RCI) are, arguably, the theoretical underpinnings of the 'techno-managerial' account of governance. As per NIE/RCI, changes in formal institutions are expected to be achieved more easily than in informal ones, given the time lag associated with adjusting 'mental models' (Denzau/North 1994). Institutional change in these approaches is not only gradual but also conscious. The complex interplay between institutions and organizations explains the approaches of NIE and RCI to change, continuity and economic performance, and contributes to the techno-managerial understanding of governance.

Underlying and triggering these processes is the analytical separation and the concomitant interaction between institutions (which set the rules of the game) and organizations (the players, agencies, etc.). Following North's (1994) seminal contribution to the literature, an important distinction is to be made between formal and informal institutions – seen as aggregations of rules that define how the game (human interaction) is played—and organizations, which consist of groups of individuals guided by the pursuit of common objectives in different spheres (political, economic, social, educational). This analytical distinction is almost balanced by an argument along the lines of Giddens' perspective on structure and agency[14] whereby institutions shape and condition the type of organizations created, while organizations – investing in skills, knowledge and technology for their own survival – are the source and motor of institutional change. For North:

> The organisations that come into existence will reflect the opportunities provided by the institutional matrix. That is, if the institutional framework rewards piracy then piratical organisations will come into existence; and if the institutional framework rewards productive activities then organisations or firms will come into existence to engage in productive activities (North 1994: 361).

Hence, if the process of change is attributed to the synchronization between organizations and institutions, then the institutional anchoring of incentives which protect and safeguard property rights lies at the heart of the approach of NIE/RCI towards medium- and long-term economic performance. Since the institutional framework comprises opportunities and constraints where the organizations or players are rationally bounded, one gets efficient institutions by a polity that has built-in incentives to create and enforce efficient property rights (North 1990). From this perspective, property rights constitute the core economic institutions in a society (Acemoglu/Johnson 2005). The concept as used here is not restricted to the economic sphere but also applies within the political system and among the co-existing norms.

In relation to the political system the techno-managerial conception of governance emphasizes how incremental, yet conscious, institutional engineering can make the rules of those formal institutions (which enforce property rights) more transparent, accountable, predictable and streamlined (Williamson 2000). In parallel it addresses the structure of incentives which, if followed by rationally-bound actors, means that new rules are desirable. Therefore, if it is more rational for players to stick to these property rights-sensitive rules of the game, the process will yield better economic performance in the end (Ostrom 1990). These themes have inspired many World Bank publications (World Bank 1991, 1997) on good governance, anti-corruption, decentralization policies and lately the financial inclusion initiatives under governance of remittances.

The major emphasis of the international organizations involved in remittance market creation is on developing the 'payment system aspects' of remittances (World Bank 2008). According to the current diagnosis several factors hinder the efficient flow of remittances. Ill-developed financial systems in countries of origin, high transaction costs, long processing periods and stifling regulations deter migrants from accessing formal remittance services (World Bank 2008). In the last 12 years the World Bank has helped more than 100 countries institute payment-system reforms in their financial systems. Financial sector development is expected to have a positive effect on the economy by helping overcome credit market failures, fostering growth and reducing poverty (Agarwal/Demirgüç-Kunt/Martinez-Peria 2006).[15] Arguably, developing economies suffer from poorly developed financial markets and a low degree of monetization, and a sig-

14 Giddens' dialectical understanding of the mutual constitutiveness of binary oppositions is evident in his attempt to 'solve' the structure/agency conundrum through his structuration theory (Giddens 1984: 376).

15 See at: <http://econ.worldbank.org/resource.php?type=5> (1 May 2010)

nificant portion of the population that works outside the sphere of the financial system which is unable to access credit and suffers from low productivity (Fritz/Ambrosius/Stiegler 2008). Terry and Wilson (2005: 391) suggest that remittances can be the 'point of entry' into the formal financial system for the poor giving them a plethora of financial products such as loans for housing, mortgages, insurance and pension plans.

The leading assumption behind formalization is that it would increase the savings available in an economy for investment and help stimulate remittance multipliers for economic growth.[16] The remittances-savings line of argument emphasizes that money will be accessible to entrepreneurs and used where it earns highest possible returns. In many developing countries most migrant savings go into purchase of land and houses, which is not considered the best way to mobilize savings (Ratha 2004).[17] In the standard neoclassical format an increase in savings is equated with better prospects for growth and higher per capita income (Fritz/Ambrosius/Stiegler 2008). This assumption has been challenged on several grounds. One striking case is that of Kerala, India where a large amount of remittances in savings accounts remain under-utilized. The economy thus faces the problem of how to convert its high level of savings into productive investment and employment (Kannan/Hari 2002). State level public sector enterprises have failed to attract remitted funds because of low efficiency and poor credibility. Saith (1991) showed that the Kerala economy failed to capitalize the boom in the construction sector and remittance money flew out of the state. Mobilizing these savings has been a problem for policymakers. Evidently there is a gap between the influx of remittances and its growth-inducing utilization, and it is not clear how the formalization efforts would help correct it.

To recapitulate, the academic challenge of NIE/RCI perceptibly revolves more around the *mechanics of institutional analysis*, than the fundamental *formation and post formation questions that surround the genesis of these institutions*. The mechanics of institutional analysis – the analytical and methodological lenses through which institutions have been defined and studied as regards how they operate and how political behaviour confronts or contributes to institutional continuity, change and performance – need to be subject to greater scrutiny. Nonetheless, all these variations, including the institutional tinkering patterns of NIE/RCI, are silent about where these institutions come from, how they are formed, to which perceived interests they relate, and how they are legitimized. In a similar spirit, there are more nuances to the ingredients and drivers of the formalization process than visible in the World Bank type techno-managerial call for governance. Our next contention is that there is a need to investigate more deeply the processes that have led to the creation and then perpetuation of migrant flows, and by extension the remittance flows. We do so by examining the experiences of three countries to show how the political often dominates the economic.

8.4 Different Folks, Different Strokes: The Philippines, India and Indonesia

One of the notable features of the global remittance market is the high variance in the degree of formalization of remittances; there can be stark differences even within a region. While remittance management is fairly advanced in the Latin American and Caribbean region, it is at a nascent stage in Central and Eastern Europe and many countries in Africa. In the Southeast Asian region, the formal banking system channels more than 80 per cent of remittance flows to the Philippines whereas in Indonesia the informal remittance service providers (RSPs) dominate the market (IOM 2008). The immediate question that follows is what determines the level of formalization of remittance transfers?

In this section the systems of three countries are analyzed as regards their levels of formalization and measure of success: the Philippines, India and Indonesia. Philippines is considered to be very advanced in management of remittances. India is known to be a late formalizer with a moderate level of success while Indonesia is known for the speed with which it has gone back to the informal methods of remittance service provision. The different levels of formalization in these countries provide a good contrast and help highlight important determinants of formalization

16 One notable and positive aspect of remittances as a source of foreign finance is that the multiplier effects are more pronounced compared to other sources of foreign exchange. The reason being that the money goes to the lowest strata of society, which generally has a higher than average propensity to consume.

17 See at: <http://www.migrationinformation.org/Feature/display.cfm?ID=256> (1 May 2010). Ratha and Dilip (2004): "Understanding the Importance of Remittances", *Feature Story* Migration Policy Institute, October.

and its success or failure. Analysis shows that migration and remittance management has largely been a state-driven process, determined more by the financial and political needs of the ruling government than by the needs of the market, let alone the migrant workers. The case of the Philippines, the earliest among the formalizers, is particularly illustrative in showing the limitations of remittance-led development.

8.4.1 The Philippines

The Philippines are the fourth largest remittance receiver – after India, China and Mexico. The migrant population accounts for 10 per cent of the total population and remittances now make up nearly 12 per cent of national GDP (IOM 2008). It is also the pet-case of remittance-enthusiasts as a "paradigmatic example of state-driven policy of generating remittance finance through a determined state policy"; "no other country comes close to the same level of state involvement" (Rupert/Solomon 2005: 87). Once dominated by private RSPs, now more than 80 per cent of the remittances coming to the Philippines flow through formal channels (Siracusa/Acacio 2004). This money has been crucial to maintenance of the macroeconomic health of the economy. Nonetheless there is considerable dissent about the impact formalization has had on economic development in the Philippines.

In the early 1970's the Philippines' government established a comprehensive institutional arrangement for the management of migration. This scheme led to the creation of the OWWA (Overseas Workers Welfare Association), CFO (Commission on Filipino Overseas) and later the POEA (Philippine Overseas Employment Administration). The OWWA was for the welfare of the families of migrants and received contributions from the migrants themselves and from the government. The CFO was to ensure the welfare of the migrant workers. In 1982 the POEA evolved as a comprehensive programme bringing a number of activities under one umbrella. Under the programme migrants received induction services – help with documentation and pre-migration orientation courses – all under the supervision of the Ministry of Labour. A number of laws and policies were formulated to ensure the safety of migrants abroad, and also to streamline and leverage remittance flows. The Philippines was one of the first countries to honour its Diaspora by: organizing 'migrant worker days'; calling them 'national heroes'; providing them special rights such as a reduction in import duties; and even organizing beauty contests meant specially for the Diaspora namely 'Miss Overseas Philippines' (Castles 2007).

The trigger for this systematic labour-export infrastructure came during the Marcos regime. Scholars such as Castles (2007) argue that the process began as a measure to cushion the impact of a mismanaged economy during the Marcos years. There was no or little capital investment, debts were mounting and high levels of government corruption made it more difficult for the regime to command legitimacy. Motivated by fear of social unrest and the need to curb political opposition, Marcos declared martial law and started on the path of rapid market liberalization by adopting a wide range of structural adjustment plans under the guidance of the IMF and World Bank.

Before state-level involvement migration had been a vibrant informal sector. By introducing a major programme on systematic export of labour the Marcos regime literally took over the trade in contract labour from private migration merchants using it as instruments for economic and political viability (Siracusa/Acacio 2004). Through the years there have been significant modifications in state policy and private partners have been reinstated with the state playing a supervisory role.

Has this high level of organization and formalization achieved the expected goals? The evidence on this front is predominantly negative. Initially the labour export programme did help the Philippines gain credibility as a global economic actor and improve its credit-worthiness in the global market (Siracusa/Acacio 2004), but this advantage was not sustained. Saith (2001) shows how, having been at the point of economic take-off, the country then suffered from rising unemployment levels, increasing poverty and weak macroeconomic fundamentals. Many years of neglect of agriculture and undervaluation of capital in the Philippines had reduced the economic capacity to absorb the growing labour force. Low rates of domestic savings, combined with excessive dependence on remittances, is one of the serious shortcomings of the Philippines' growth model which makes it particularly vulnerable to external shocks. Bayangos and Jansen (2009) point out that fluctuations in remittance flows are significant, and that the impact of any recession in the US becomes pronounced once endogeneity and pro-cyclicality of remittances are considered. The benefits of migration have also accrued largely to the rich regions and higher income classes, thereby increasing inequality though the authors also argue that growth in the Philippines will be heavily dependent on remit-

tance flows for years to come and that the poor could be worse off without them (Castles 2007).

The Philippines serves as an example of how dependence on remittances can drive attention away from more important structural issues, such as economic land reforms in rural areas, which would challenge deep-rooted bases of inequality and under-development (Castles 2007). Quick-fix measures ignore more important needs of development. Rupert and Solomon (2005: 100) note that migrants neither see these measures as helpful nor remittances as fulfilling any developmental task. Some even mock state actions, such as bestowing 'heroes of the nation' titles, as mere gimmicks to attract more remittance money. After approximately four decades of concerted formalization efforts, the Philippine economy continues to stagger under many, if not more, of the same problems.

8.4.2 India

In 2005–06 India received the highest amount of remittances (24.6 billion USD) followed by China and Mexico (Sasikumar/Hussain 2007). Forty-four per cent of these remittances originated from the US, 24 per cent from the Persian Gulf and 13 per cent from European countries (Chishti 2007).[18] Compared with other major labour-exporting economies (particularly the Philippines, Mexico and Turkey) institutionalization of the process in India started late; gaining import only after the much-known balance of payments (BoP) crisis of 1991. India has been relatively slow and cautious in its approach. On average, however, the efforts have been a success. The use of formal banking channels for the transfer of remittances has increased and the remittance market has grown more competitive with a large number of new RSPs entering the market. In the fiscal year 1990–91 the Reserve Bank of India reported remittances worth 2.1 billion USD (Chisti 2007). In less than 15 years the amount has risen more than ten times. Compared with 1991, when remittances made up 0.7 per cent of GDP, they had grown to three per cent of GDP by 2006 (Chishti 2007).

The Indian governments have long neglected the contribution of remittances to the economy. The 1991 balance of payment (BoP) crisis faced by India came as a turning point.[19] The Indian foreign exchange reserve dropped to record lows and India started on a massive liberalization exercise. Some scholars also call 1991 'India's second independence' (Chishti 2007). In an attempt to shore up all possible sources of foreign exchange, remittances received special attention because of the realization that they made up a large part of India's foreign exchange earnings.

During this period a number of steps to attract contributions from the Diaspora were taken to streamline the remittances flowing into the country. The initiative started under the Congress regime and gained force when the National Democratic Alliance (NDA) came to power. Under the NDA government India celebrated *Pravasi Bharatiya Divas* (Non-resident Indian Day) for the first time. It was an important part of the 'India Shining' campaign of the NDA: Indian growth rate was at its peak and the contributions from the Diaspora were thereby acknowledged and further encouraged. When Congress came back to power in 2004 and retracted numerous policies of the previous government, they maintained special treatment of the Diaspora.

Sasikumar and Hussain (2007) point out that before the 1990's there were hardly any policies to maintain or increase remittance flows. After liberalization migrants received a number of incentives. Among them were higher interest rates (vis-à-vis international market rates) and exchange rate guarantees for foreign-currency denominated accounts (FCNR (B), higher interest rates to rupee-denominated accounts compared with the ordinary citizen (NR (E) RA deposits), arrangements for repatriation of deposits and exemption from wealth and income tax both on deposits and the interest earned on it (Sasikumar/Hussain 2007: 19). "These incentives were provided mainly with a view to augment the foreign exchange reserves of the country, especially in the context of the difficult times the Indian economy had in the sphere of external finance" (Sasikumar/Hussain 2007: 19). There is agreement among scholars that exchange rate liberalization was the key policy move attracting large numbers of migrant workers to the formal banking infrastructure.[20]

18 Chishti, M., 2007: "The Rise in Remittances to India: A Closer Look", in: Migration Policy Institute: "Feature Story", 1 February 2007; at: <http://www.migrationinformation.org/Feature/display.cfm?id=577> (1 May 2010).

19 Attention to remittances was rising long before the 1991 BoP crisis, in the 1970's. For example, creation of the NRI deposit accounts was also to attract foreign capital and shore up the declining foreign exchange reserves (Chisti 2007). This, however, is part of the debate among scholars about whether the Indian economy began to liberalize in the 1970's or 90's.

India is one of the countries where the informal sector for remittances has been particularly strong. Passas (2003) notes that the *Hawala* system of remittance transfer dates back before paper money and formal banking in the Indian subcontinent. Apart from attributes such as trust and convenience, one of the basic attractions of the informal RSPs was that they offered the market exchange rate to migrants – being higher than the rate offered by banks. When India chose to let the Indian currency float and banks started to offer rates determined by the market, there was a significant shift from the informal methods to the banks. From fiscal year 1991 to fiscal year 2006 remittances grew from 2.1 billion USD to 8.5 billion USD (from 0.7 per cent to 3.22 per cent of the GDP) (Chishti 2007). Although there is, to date, no systematic study on the factors leading to the increase in remittances, certain factors – apart from exchange rate liberalization – could better account for that increase. For example, successful IT professionals who had migrated to the US were then motivated by bullish sentiments about the Indian economy after the 1991 reforms to make investment back home. Accepting that national interests motivated the onset of formalization, the success of formalization may also be owing to the critical mass of high-skilled migrant workers then preferring the formal banking channels. But it is important to keep in mind that a large part of the Indian Diaspora from the unskilled/semi-skilled category continues to prefer informal agents (DFID 2005).[21]

There is one aspect of the Indian remittance formalization experience that deserves particular attention. Compared with the case of the Philippines where there was rapid involvement of state agencies, Indian governments have been less active; and entrepreneurial private financial institutions are more in the driving seat – capitalizing on the opportunities opened by liberalization. Despite initial success, use of financial instruments such as securitization has been low vis-à-vis the Philippines and many Latin American countries, making the process slow. There are recurrent demands on the state by banks to raise ceilings on the amount that can be freely remitted by non-residents, and to extend the facility of special FCNR (B) (Foreign Currency Non-Resident) and NR (E) RA (Non-resident External Rupee Account) deposits to Indian nationals living in the country (Mohan 2008). More studies are necessary to be able to comment on this relatively cautious approach.

At the aggregate level only two per cent of the Indian population migrates abroad. There are certain regions, however, such as Kerala, which send large numbers of migrants (mainly to the Gulf countries) and are heavily dependent on remittance income. More than 25 per cent of the state GDP of Kerala comes from remittances; yet the remittance-development link remains elusive. As mentioned earlier, high amounts of savings have failed to translate into economic growth in the state (Kannan/Hari 2002). Castles (2007) also points out that migration has led to 'ostentatious consumption' and displays of wealth in Kerala.

8.4.3 Indonesia

The case of Indonesia is an interesting departure from the principles behind formalization. After the initial steps of formalization were taken the country rapidly returned to the informal methods, and aggressively so. A study of the Indonesia-Malaysia remittance corridor points out that remittance flows through formal channels from Malaysia dropped by a massive 30 per cent between 2002 (0.4 billion USD) and 2006 (0.26 billion USD) and this was despite a significant increase in the number of migrants leaving for Malaysia (Hernandez-Coss/Brown/Buchori/Endo/Todoroki/Naovalitha/Noor/Mar 2008). The authors point out the need for the government to pay attention to the unique characteristics of the Indonesian remittance economy and design measures accordingly.

Indonesia is the fourth most populated country in the world and has recently come to enjoy the reputation as one of the world's largest labour exporters. According to statistics for the year 2006 roughly 4.3 million Indonesians work and live abroad, and remit 5.6 billion USD to the country – of which only 10 per cent flows through formal channels (Hernandez-Coss/Brown/Buchori/Endo/Todoroki/Naovalitha/Noor/Mar 2008). At the beginning of the decade a partnership had developed between the Financial Market Integrity Unit of the World Bank and the East Asia Social Development Unit to streamline remittances flowing into Indonesia.

Hernandez-Coss and co-authors [2008] identify several factors that determine the migrant's choice of transfer channels – cost, physical access, institutional access, regulatory access, competition and financial literacy. Most migration from Indonesia consists of

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20 See also Chishti, M., 2007: "The Rise in Remittances to India: A Closer Look", in: Migration Policy Institute, "Feature Story", 1 February 2007, at: <http://www.migrationinformation.org/Feature/display.cfm?id=577>.

21 See at: <www.dfid.gov.uk/pubs/files/uk-remittances-report.pdf> (1 May 2010)

unskilled/semi-skilled labour and 80 per cent of the migrant population are women who work in the informal sector. The biggest Indonesian bank (Pos) has only 50 branches that can dispense remittances immediately. By contrast, the informal service providers collect and deliver money door-to-door and have a much wider outreach. Women migrants feel more at ease with the informal agents who speak their language and are less intimidating than the formal bureaucratic banking system (Hernandez-Coss/Brown/Buchori/Endo/Todoroki/Naovalitha/Noor/Mar 2008). They note that:

> [d]espite the disadvantages of the informal sector, the formal sector has little to offer the migrant workers in its current state. It is less competitive in terms of accessibility and provides little added value in terms of access to the much needed pre-departure credit or other instruments that might appeal to the migrant workers, especially women and the undocumented (Hernandez-Coss/Brown/Buchori/Endo/Todoroki/Naovalitha/Noor/Mar 2008: 14).

Passas (2003) argues that attempts to over-regulate the traditional systems of remittance transfers may be counterproductive. It might push them underground making them more vulnerable to criminal activities. The significant drop in remittances through formal channels in Indonesia discussed above coincided with the introduction of anti-money laundering and anti-terrorism regulations – integral parts of the formalization drive. This suggests that the risk of driving migrants to greater informality through attempts to over-regulate the informal sector is high.

There is also a political dimension behind migration from Indonesia that remains under-researched. Tirtosudamo (2000) brings this out by highlighting the role of the ruling elite and internal politics in stimulating migration from densely populated Java. The author points out that politics in Indonesia is driven by the need to reinforce geographical clusters based on race, religion, tribe and language and that this always involves rooting out dissidents and removing any possible source of challenge or social unrest. These political processes constitute an important motor for international migration from Java and deserve greater attention than is currently given.

Analysis of the available evidence shows that the choice of formalization has a strong political dimension along with the economic – in most cases the political surpassing the economic. In both India and the Philippines state interest for economic survival was explicit. In the Philippines the fear of political turmoil added greater exigency. In the case of Indonesia, even though the migrant streams were shown to be triggered by internal politics by Tirtosudamo [2000], the formalization of remittances was pioneered by the international organizations. In the Philippines there was overzealous state machinery and the formalization process remained state-engineered and state-run, while in India – after the initial exchange rate liberalization – the process was largely steered by private financial institutions. Even today the Indian state continues to follow a cautious approach in raising limits of accounts and extending benefits to larger non-resident populations. The two countries mark two different approaches to formalization. In the absence of primary research there can be no conclusion on which of the two approaches is better. Further primary studies are required to answer this question. The third case of Indonesia where formalization was steered by external agents shows that understanding the nature of migration from a region is important. At places where undocumented migration is high, formalization attempts need to be cautious. Indonesia's reaction to the drive for formalization illustrates the inadequacies of the formal system vis-à-vis the informal and serves as a warning that rash attempts to formalize may drive migrants to riskier options.

8.5 Conclusion

The positive contribution of the remittance-enthusiasts is the lessening of apathy and a negative outlook on international migration. A decade ago migration was considered a symptom of failed development and all interventions aimed at stopping or reducing migration from any given region. The new paradigm creates greater acceptance of migration as a pervasive phenomenon and addresses what De Haan (2002) termed the 'sedentary bias' in public policy. This is a welcome change, especially in contexts where migrants are vulnerable to unscrupulous remittance service providers and, given the lack of information on better options, have to pay more. Yet, to eulogize remittances as the 'new development mantra', or the solution to third world under-development, is to go beyond what can be inferred from the evidence.

The liberal view sees the role of international financial institutions and the states as facilitating market operations by removing possible hurdles against efficient functioning through the creation of norms, regulations and dissemination of information. There is, however, well-founded evidence that remittance markets have been created by dedicated agencies

through a web of international organisations, banks and states. There seems to be a much stronger agency aspect in the current drive for formalization than is being admitted. The remittance phenomenon is strikingly similar to the micro-finance story; both drawing credence in the name of financial inclusion of the poor and the leveraging of small savings. Micro-finance has already become a global business sustaining a giant body of rating agencies, banks and NGOs. Remittances are set to join their ranks, putting too great a burden on the shoulders of the poor. More studies are needed to draw connections between the histories of micro-finance and remittances – for it would seem the micro-finance experience has sobering lessons to offer remittance-enthusiasts.

Both the theoretical and the empirical evidence for remittance-led development seem questionable. The much-hyped counter-cyclicality of remittances is only in relation to other sources of development finance and has only recently been put to the test of financial crisis. As such, remittances may have a pro-cyclical nature, vulnerable to the economic booms and busts of the labour-importing countries. A high share of remittances in a gross national product makes that economy particularly vulnerable. The tendency of migrants to hold remittances in foreign currency also poses the risk of dollarization and central banks therefore losing their control on monetary policy. The impact of remittances on growth depends on a wide variety of factors many of which do not lie in the control of policymakers. There is limited evidence that concerted remittance management has led to sustainable economic growth in any region.

Further, there is agreement among scholars that while micro-level impact of remittances has been and continues to be extensively studied, studies on the macroeconomics of remittances are relatively scarce. Recent attention to remittances by global policymakers creates the right platform to undertake more studies on formalization of remittances and their impact on macro-economies. State involvement to leverage greater amounts of remittances should be subject to further research to compare and draw lessons on which approach is more conducive to stimulating growth and under which conditions.

The proposed superiority of formal methods over informal ones is debatable and should be scrutinized from the perspective of migrants' needs. Thoughtless drives to formalization and regulation of the informal remittance industry may lead to migrants resorting to riskier options, thus the impetus towards formalization needs to be driven more by the needs of migrants and not by those of the financial sector. It is not so important which medium is chosen (formal or informal); what is important is whether the given medium delivers. It makes much more sense to invest in the informal system if the informal sector has greater outreach and/or delivers more cost-efficiently (Hernandez-Coss/Brown/Buchori/Endo/Todoroki/Naovalitha/Noor/Mar 2008). More studies will be needed to understand the requirements of migrants in different remittance 'corridors', and suitably to adapt all attempts to manage remittance. Without this, the new 'mantra' on remittance as contributing to development is anything but responsible, for it puts undue pressure on migration to finance development.