

IV. Developing Policies in Countries of Origin to Optimize the Benefits of Organized Labour Migration

An increasing number of developing countries and countries with economies in transition seek to adopt policies, legislation and structures which promote foreign employment for their workforce and generate remittances, while providing safeguards to protect migrants. While job creation at home is the first best option, an increasing number of countries see overseas employment as a part of a national development strategy for taking advantage of global employment opportunities and bring in foreign exchange.

This Chapter will look at the role of marketing in facilitating and expanding labour migration, improving remittances services and enhancing the development impact of remittances, and skills development, as well as the issue of brain-drain. For countries seeking to promote foreign employment, labour migration policy necessitates adequate emphasis on the promotion and facilitation of managed external labour flows and should not be limited to the State's regulation and protection functions. Some of the specific modalities through which States can engage in the facilitation and promotion of international labour migration are described below.

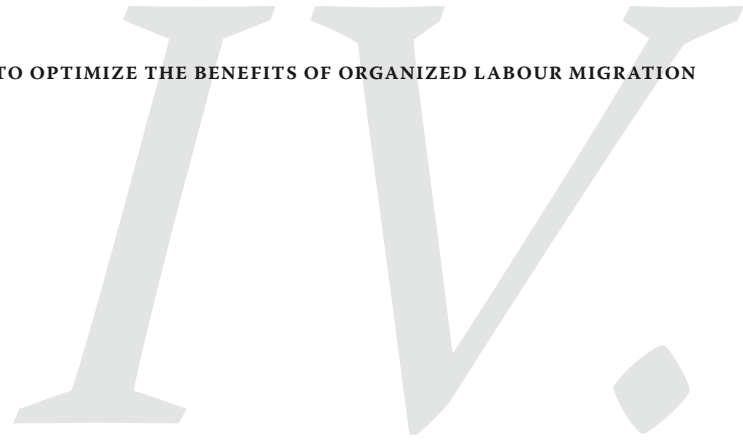
IV.1 Importance of Marketing¹

Since labour migration is primarily a demand-determined market, countries wishing to deploy their workers abroad must be able to seek out prospective employers amidst the competition coming from other labour-sending countries. Thus, marketing is the lifeblood of any overseas employment programme.

Marketing is the management process responsible for identifying, anticipating, satisfying customer requirements profitably. By breaking down this definition into its component parts, we can derive a better description.

Management refers to the top levels of the organization or a country. In the case of the Philippines, the President of the Republic takes an active hand in determining and guiding policies and programmes. On the diplomatic front, embassies utilize a country team approach, which puts all embassy personnel under the supervision and authority of the ambassador (ILO, 1991).

Process connotes a flow or movement forward involving a number of steps or operations involving nu-



merous entities or organizations. By its nature, it signals constant movement as opposed to a static position.

Identifying the requirement is the first critical step in marketing to determine the market of a product or service. It requires knowledge of both the supply and demand side of the market.

Anticipating is the necessary quality that allows one to remain competitive in the market. It implies a proactive attitude which allows an organization to be a step ahead of competitors in terms of what skills will be required by whom and when.

Satisfying or giving satisfaction is a universal concern of most customers. They look for products or service providers that will meet their requirements.

Customer requirements refer to the reliability of the product or service provider, competent and qualified workers, a cost effective process, timely delivery and transparent transactions.

Profitability refers to the whole migration process, where the host country and country of destination, migrant workers and the recruitment agency should all experience a win-win situation.

Marketing is a necessary first step in the effort to “export” a country’s labour. It also connotes a country’s deliberate policy to use the export of labour as a means to ease unemployment and rely on the flow of remittances to prop up its foreign exchange earnings. Countries intending to deploy their nationals abroad need to search for opportunities beyond their national boundaries in an international market which is highly competitive. This is attained with a working knowledge of market research.

The marketing process must start with an analysis of Strengths, Weaknesses, Opportunities and Threats, more commonly known as a SWOT analysis. When placed in the context of international labour migration or an overseas employment programme (OEP), an updated SWOT analysis can help to focus a country’s efforts in areas where it has built-in strengths, or help it to determine strategies in the context of opportunities or threats. A well-executed SWOT can help to shape a marketing strategy but, more fundamentally, it can help to determine a market research plan. Therefore, although an in-depth SWOT is always preferred, even the most singular level SWOT will help to point an institution in the right direction for the development of a marketing strategy.

IV.1.1 The market development process/ developing an international labour migration marketing cycle

For facility of presentation, a Market Development Process Matrix is provided below which can serve as a framework for reference of the various stages of the process. The stages inherent in market development are chronologically laid out on the upper horizontal axis with 5 columns describing the different stages. The vertical axis lists the different schemes and strategies (inputs) designed to implement the targets objectives or goals (outputs), which are in turn laid out on the lower horizontal axis.

The first stage in market development is identification of the target market and assessment of supply capacity. It is important that both target market and supply assessment be undertaken simultaneously, since human resources development in a country usually is undertaken to meet local demands. A market becomes viable when there is a match between the demand and supply sides of the equation. A match signifies that the educational qualifications and experiences demanded by the foreign employer match those of workers from the sending country. If the variations between expectations and current capacity of the workers are not in congruence, some upgrading measures may be undertaken by way of skills upgrading or complementary courses in order to narrow any gap.

The entry stage follows, during which time the overseas employment programme of a sending country embarks on schemes to enable its workers to gain a foothold in the labour economy of the host country. The goal at this stage is to stimulate a market environment that raises the consciousness and awareness of foreign employers of the availability of workers from a particular country by highlighting their qualities, availability and competitiveness.

Having gained a foothold in a foreign market, the next step is programme implementation where the actual attainment of job contracts and recruitment agreements transpires as a result of inputs from the first two stages. At this point, a country's deployment machinery becomes known to others and comparisons are taken with other competing source countries to determine the better source of workers.

Next is the market share growth stage during which time deliberate efforts are undertaken to expand a sending country's market share. This presupposes that a sending country has the means of determining its share of the market and to what extent it can expand its participation in that market. Data on the international labour migration market is highly inadequate. Gut-feel measures may at times be necessary in order to at least estimate one's competitive standing and on demand and competitive trends.

The last stage in the process is market share maintenance, which ensures that current customers are satisfied and that their satisfaction will lead to recommendations to other prospective employers or repeat orders, whenever necessity dictates. It also means being in a strong position to fend off competitors trying to acquire market share.

IV.1.1.1 Market development efforts

The stages in market development should flow towards efforts for establishing specific market development and employment promotion measures, as enumerated in the vertical section of the matrix. This may be pursued in four general categories, namely, (1) research and planning, (2) personal selling and promotions, (3) print promotions and (4) corporate promotions and industry servicing projects. As an illustration, POEA's approach in the Philippines is described below.

(a) *Research and planning*

Research and planning are two inseparable tasks that comprise the lifeblood of a market development programme. Market-oriented research is undertaken to a large extent during the first stage of the market development process.

In the Philippines, the operational set-up of its market research group is based on the "desk officer system", which assigns particular markets on a regional basis and skills-based segments. This system facilitates the research process as it designates a desk officer on a per region basis such as the Middle East, Europe or Asia. It also allows for the development of regional expertise and specialization for each desk officer, making them wholly responsible for the conceptual and procedural formulation of regional market projects while coordi-

FIGURE IV.1

Government-led Market Development Process Matrix					
STAGE INPUT	Target Market Identification & Supply Assessment	Market Entry Stage	Market Programme Implementation	Market Share Growth Stage	Market Share Maintenance Stage
1. Research and planning	*****		*****		
2. Personal selling and promotions					
a. Marketing Missions			*****		
1) Technical Study or Fact-finding Mission	*****		*****		
2) Top-level goodwill and promotionsmission		*****			*****
b. Field visit / client calls		*****			*****
3. Print promotions					
a. Ad. programme		*****		*****	
b. Support communication materials		*****	*****		
c. Direct Mailing		*****			
4. Corporate promotions & industry servicing projects					
a. Familiarization campaign		*****	*****		
b. Greet-a-client				*****	*****
c. Client referral advisory			*****		
d. Market information service			*****	*****	*****
Output	Market prospects	Host government/ employer awareness, goodwill, conducive market environment	Initial job contracts; recruitment & bilateral labour agreements; market information	Stronger share & foothold (additional &/ or new job orders/ agree-ments)	Continued host government/ employer patronage

Source: Achacoso (1987).

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nating with other areas of concern, such as defining research standards in implementation and control.

This geographic segmentation is crucial as it simplifies the application of promotional strategies, as will be seen below. The relative autonomy inherent in this arrangement also provides an environment conducive to creative/innovative thinking.

A skills or industry based approach allows for the determination of market behaviour which is easier to dissect and correlate with appropriate strategies. Since such research make reference to the whole industry and is not for POEA's exclusive use, feedback from industry participants is relied upon as inputs and form part of the feedback loop during the making of plans and their implementation. Thus, POEA research outputs are circulated within the industry. A Monthly Market Situation Report (MSR) is provided to the private sector through their associations, which in turn distribute them to their members. The MSR is a consolidated report on current international labour market developments and relevant economic trends and events that have a bearing on the Philippine overseas employment programme. In addition, labour-receiving country profiles are prepared in order to have a comprehensive brief on the labour, political and socio-economic conditions as well as prospects and problems in each country. Information on immigration policies and business laws of different countries are continuously gathered, analyzed and disseminated.

This type of research is essentially based on analytical reading of secondary sources such as trade journals, regional economic magazines and national development plans of labour-sending countries. This is complemented by feedback derived from consultations and close liaison work with the marketing staff of private sector groups. Inputs are also derived from reports of Labour Attachés and whatever can be culled from Philippine Embassy reports.

(b) *Personal selling and promotions*

There is no better way of knowing the market than by meeting and talking directly with people on the ground, essentially officials of the host country and human resource development officers of private companies. This is the concept behind the "personal sell-

ing" approach adopted by POEA. Personal selling is done through a variety of ways which include among others, 1) the dispatch of special marketing teams on field missions and 2) client calls or field reconnaissance by Labour Attachés and/or special POEA representatives.

1) *Marketing Missions*. There are basically two types of marketing missions that are undertaken:

- *Technical Study or Fact-finding Missions* – This type of mission is generally participated in only by government officials composed of POEA's middle managers and senior technical staff with occasional representatives from other government agencies. It is basically a fact-finding or fact-substantiating strategy to assess opportunities or explore new prospects for Filipino manpower by undertaking research and improving the information base on prevailing wage rates, development plans, comparative data on competition from other countries, labour and business laws, employment practices and other relevant information on the target country.
- *Top Level Goodwill and Promotions Missions* – This type of mission is either purely composed of ranking government officials (i.e. Minister of Labour, POEA Administrator, or Undersecretaries) or is joined by representatives from the private sector. The composition of the team is in itself a key selling strategy in as much as it "opens doors" in target markets, establishes goodwill, and fosters bilateral understanding and cooperation with the target country. Opportunities to meet with top officials of foreign corporations are more readily arranged and greater attention is given to the promotion of the Filipino workers qualities and competitiveness.

The inclusion of representatives of the private sector enhances the business development aspect of the mission and facilitates the establishment of links with prospective employers/contractors. Representation from the private sector is usually obtained through nominations by the industry associations with the sponsoring government institution having the final approval. All expenses

incurred by the private sector are at their account, although government assists in securing preferential airfare and hotel rates.

2) *Field Visits/Client Calls* – Aside from these overseas missions, POEA carries out periodic marketing activities in coordination with Labour Attachés; who are the eyes and ears of the Ministry of Labour in the field. Labour Attachés act as on-site “information centres” and “distribution outlets” for promotional and communication materials developed by the home office. They also conduct “door-to-door” visits to prospective clients and provide the home office with leads and recommendations. They play a very important role in information generation and as feedback resources.

(c) *Print promotions*

Printed promotional materials are very important as a marketing tool and POEA relies on them quite heavily. The development of these printed materials emanate from POEA’s marketing personnel, since they require the perceptive analysis of the hiring tendencies and characteristics of employers and are blended with a concise and comprehensive presentation of what the country or POEA can offer by way of its services. The print campaign is conducted through 1) the use of advertisements in media, 2) support communication materials, and 3) direct mail.

- *Advertisements* – The use of advertisements are particularly strong at the entry and growth stages of the market development process. At the entry stage, these advertisements serve as launching pads or image-builders of the Filipino worker as a better alternative or as a preferred choice. During the growth stage, these advertisements highlight the comparative advantages and competitive edge of the Filipino migrant worker.

POEA conceptualizes and utilizes advertisement copies depending on their target audience and the purpose of the campaign. These take the form of institutional or tagline advertisements, greeting advertisements, write-ups, press releases and promotional articles strategically released and placed in various media outlets either locally or internationally. Factors such as readership profiles, circulation record, language medium, cost

and other factors determine the frequency and placement of such advertisements.

- *Support Communication Materials* – These generally refer to hiring primers, skills brochures, corporate profiles, marketing portfolios, annual reports, information kits and flyers. Prepared by POEA personnel and used as support materials in marketing activities, they provide handy and comprehensive information on the Philippine overseas employment programme and its facilities and are updated whenever necessary. The distribution network for these materials range from the Philippine embassies, marketing missions, labour attachés, business centres in leading hotels, and the direct mail campaign.
- *Direct Mail Campaign* – This strategy is employed to reach out to a predetermined group through sales letters and flyers all year round in order to support government and private sector efforts. Mailing lists of different sectors are developed with the assistance of Philippine embassies and labour attachés who recommend target sectors after research. This campaign is considered as a more cost-effective promotional instrument since it only involves the cost of production of letters and mailing costs.

(d) *Corporate promotions and industry servicing projects*

POEA undertakes a number of soft-sell schemes to strengthen its corporate image and the overseas employment programme in general. It also pursues projects, which support the market development efforts of the private sector. These include:

- *Familiarization Campaign* – POEA hosts meetings and initiates dialogues with selected officials of foreign embassies based in Manila. This gives POEA an opportunity to discuss vital issues and problems affecting its migrant workers in that particular country and a means for updating them on the latest developments, policies and programmes of the government/POEA. Newly posted officials are immediately visited and given a briefing or orientation on POEA’s activities.

- *Greet-a-Client Campaign* – This is another soft-sell approach which involves sending greeting cards to important clients, both foreign governments and private employers, on special occasions such as holidays or national Independence Day celebrations. This provides a means of sustaining linkages with clients for them to continue patronizing Filipino workers.
- *Client Referral Advisory System* – The success of the market entry stage of the market development process is reflected in the level of interest or actual job orders and contracts for hiring Filipino workers sent to POEA by prospective clients. If the interested employer is a government entity wishing to have their workforce requirements filled by POEA, this is referred to POEA’s Government Placement Department. If the client is from the private sector, their job order is endorsed to the private sector through the Client Referral Advisory System.

The Client Referral Advisory System is supervised by POEA and is utilized as a means of rewarding top performers in the recruitment industry. Top performers are those who maintain a good track record in terms of their high operating standards and professionalism in the conduct of their business affairs. Guidelines and the mechanisms of inclusion of private recruitment agencies in the Client Referral Advisory are mutually agreed between POEA and the private sector.

- *Market Information Service* – A mini databank is maintained that contains reference materials, foreign and local studies on migration, reports and other vital market data and information and is made available to foreign and local clients of POEA. For instance, recruitment agencies wishing to participate in a bidding process may need data on a foreign country’s business or tax laws to enhance its chances. POEA assists, and if the data required is not available, may seek the assistance elsewhere.

IV.1.2 Market research

Market research on labour migration opportunities focuses on demand analysis and in particular on the profile, quality and quantity of the demand. This type of research is demand-, rather than supply-oriented.

Market research is a systematic process for generating knowledge on a target market through a structured way of obtaining, analyzing, processing, interpreting and reporting data. Every market is governed by four elements:

- there is a product or service wanted;
- it can be secured at a certain price;
- there is a quantity of demand among those who want the product or service;
- there is the quantity of supply of those willing to provide the product or service.

In the international labour market, the supply of migrant workers from one country is meant to fill a certain demand for migrant workers overseas for which the foreign employer is willing to pay. The idea behind this type of market research is to formulate the right decision in order to match the amount of demand for labour in the receiving state with the quantity of supply of labour from the sending state (Warren et al., 2002). Market research provides the link between demand and supply by providing the appropriate information for making an informed decision.

Any market research proceeds in the following manner:

- recognition of an opportunity or problem;
- designing the research plan;
- gathering the data;
- interpreting the data;
- reporting of research output.

IV.1.3 Role of the private sector

The role of the private sector in identifying and creating opportunities for an OEP cannot be overemphasized. An involved private sector will not only decrease the financial and staffing costs on governments when it comes to the marketing process, but also gives access to certain circles, and thereby information, that public officials may have a more difficult time acquiring.

In Asian labour-sending countries, governments acknowledge that the private sector is the engine of growth in the recruitment industry and that it is mainly responsible for opening new markets and placing Asian workers in more than 200 countries around the world and on thousands of ocean-going vessels. It actually serves as a bridge that narrows the employment gap between labour-sending and labour-receiving countries in their quest to match available skills with overseas demand for migrant workers.

The private sector also plays an important role in selecting only the most qualified and efficient migrant workers for their foreign principals or employers, since they wish to establish long-term relationships and repeat job orders with their foreign principals. This is actually the best form of protection that a migrant worker can have – that his or her skills are appropriate for the job required and he or she is suited to the work in every sense. The private recruitment agencies are co-employers of the workers they deploy. Thus, it is in their interest to ensure that their foreign principals treat migrant workers well and scrupulously observe the provisions in the employment contract.

The private sector realizes that it has to explore new markets constantly and initiate innovative approaches and services, if it is to remain competitive, both locally and internationally. Competition forces them to develop an efficient approach and demands operational flexibility in order to remain competitive. They are therefore more capable of addressing the dynamism that this kind of a market demands than government.

Furthermore, the dynamic nature of international labour migration puts the private sector in a more advantageous position over government as far as the marketing and placement of workers abroad is concerned. This is because the private sector can mobilize their resources more efficiently and expeditiously than government agencies which normally operate under more constrictive conditions imposed by bureaucratic red tape and drawn-out budgetary process.

While emphasis should be placed in attaining a balance between market development and welfare protection mechanisms, labour-sending countries might need to highlight market development without neces-

sarily sacrificing protection mechanisms for its workers given the high costs involved in market development and research. Governments might have to assist the private sector in terms of sharing information regarding market conditions and job availability in various labour-receiving countries. This is one area as mentioned above, where close cooperation with the Ministry of Foreign Affairs can help to bring down the cost of market research and development. The Ministry of Foreign Affairs is on-site and can acquire, through purchase or official request to the appropriate government agency of the host country, copies of their official publications or five-year development plans and other information that can serve as inputs to their marketing plans.

IV.2 Information Dissemination

Information dissemination is important not only to inform potential overseas workers of safe recruitment, travel and employment procedures and the risks of irregular migration, but legal labour migration opportunities and procedures and mechanisms. As shown in Section III.3.4.1, a variety of communication activities using several media can be used.

An informed and transparent labour market information system or service on existing jobs at home and abroad is an effective way of combating abuses suffered by migrant workers. Access to reliable sources of information about employment opportunities at home and abroad will allow potential migrants and their families to choose wisely from these opportunities. Adequate and reliable labour market information may also improve their search for local jobs before seeking employment abroad and provide them with criteria for a better evaluation of the actual costs and benefits of working abroad. Such information should respond to the following questions:

- How to find out about employment opportunities in potential countries of destination?
- What are the essential requirements (education, skills, qualifications, experience, capital, agency fees, passports and visas, etc)?

- How can existing skills and abilities be applied to different employment options?
- How to find out which recruitment agents are reliable and trustworthy, and which are not?
- What are the dangers related to illegal recruitment and direct hiring by potential employers?
- How to find out about suitable countries of destination?
- What are the legal requirements for entry and admission?
- What are their rights, entitlements and obligations and how to exercise these rights?
- What are the other factors to take into account in considering employment in another country?
- How to evaluate and compare realistically employment and income earning opportunities at home and abroad (purchasing power)? (ILO, 2003c, Booklet 2: 21-22).

It is highly recommended that States of origin provide migrant workers with accurate information to assist them in their search for employment. The Ukraine's State Employment Service (SES) offers a good example of the establishment and maintenance of a system of information on job openings at the national level: the *Unified Informational System* (UIS). This is a nationwide database of vacancies and job seekers and will soon be accessible in most employment centres throughout the country.

IV.3 Bilateral and Regional Labour Agreements

Movement of labour is eased as a part of regional integration processes as well as on the basis of a BLA or arrangement. This aspect will be dealt in chapter IX on inter-state cooperation.

IV.4 Migrant Remittances

It is quite clear that foreign exchange earned by nationals working abroad looms large in the formulation of labour migration policy.

IV.4.1 Role of remittances in national economies

IV.4.1.1 Definition

Three streams of money transfers are included as remittances in the IMF's annual publication, the *Balance of Payments Statistics Yearbook*. These are workers' remittances, compensation of employees, and migrant transfers. However the term "remittances" has come to include more in the eyes of a number of States, institutions and experts. For IOM's purposes, migrant remittances are defined broadly as the monetary transfers that a migrant makes to the country of origin or, in other words, financial flows associated with migration. Most remittances are personal cash transfers from a migrant worker or immigrant to a relative in the country of origin, but they can also be funds invested, deposited, or donated by the migrant to the country of origin. The definition could possibly be altered to include in-kind personal transfers and donations. Some scholars go further to include transfers of skills and technology, as well as "social remittances" (Baruah, 2006b). The scope of this section is limited to monetary transfers.

IV.4.1.2 Scale and importance

International remittances received by developing countries in 2005 were estimated at around US\$167 billion and have doubled in the last five years (World Bank, 2006). Migrant remittances constitute an important source of foreign exchange, enabling countries to acquire vital imports or pay off external debts. Remittances also play an important role in reducing poverty (World Bank, 2006). There is growing awareness of the potential that remittances contribute to economic development in migrant-sending countries at the local, regional and national levels. A USAID study on remittances in Armenia summarizes the view on the economic impact of migrant remittances (Roberts, 2004).

Consensus views on the impact of migration and remittances on the sending countries have been subject to cycles of pessimism and optimism. In the early 1990s, for example, the general pessimistic view was that remittances do not promote growth but "exacerbate the dependency of sending communities by raising material expectations without providing a means of satisfying them, other than more migration. Individ-

TABLE IV.1

Economic Benefits and Costs of Remittances to a Receiving Country

Potential Benefits	Potential Costs
Are a stable source of foreign exchange which eases foreign exchange constraints and helps finance external deficits	Ease pressure on governments to implement reforms and reduce external imbalances (moral hazard)
Are potential source of savings and investment for capital formation and development	Reduce savings of recipient families and thus have a negative impact on growth and development (moral hazard)
Facilitate investment in children's education and human capital formation	Reduce labour effort by recipient families and thus have a negative impact on growth and development (moral hazard)
Raise the standard of living for recipients	Migration leads to "brain drain" and has a negative impact on economy that is not fully compensated by remittance transfers
Reduce income inequality	Increase income inequality
Reduce poverty	

Source: Roberts (2004).

ual families attain higher standards of living, but communities achieve little autonomous growth". Some analysts went so far as to advise governments and donors to discourage migration and remittances. There has been a sea change in recent years in the consensus view, and currently there is a great deal of excitement about the potential of remittance inflows to support growth and development. This is due partly to the fact that remittance flows to developing and transition countries have become so large, and partly because the theoretical understanding of remittances has changed.

As Roberts (2004) mentions, in recent years a view has emerged that migration and remittances are the result of family decisions based on optimizing their potential, given the opportunities and constraints they face. Simplistic views that remittances lead to "excessive" consumption, import dependency, or "unproductive" investment in housing and land are no longer tenable. The potential costs of remittances are now viewed as largely deriving from moral hazard problems. For example, remittances can ease pressure on governments faced with large external deficits to engage in difficult structural reforms. They also could have a neg-

ative impact on recipient households' commitment to work, savings and investment, even if this is the objective of the remittance sender.

The importance of migrants' remittances as source of development finance is now widely recognized in various fora including the UN, EU and G-8. For the majority of countries in the Eastern Europe/Central Asia (ECA) region remittances are the second most important source of external financing after FDI and, for many of the poorest economies, remittance receipts are the largest source, greater than contributions from foreign aid. Three of the world's largest recipients of remittances as a portion of GDP are in ECA (Moldova, Bosnia and Herzegovina, and Albania – see Textbox IV.4).

It is important to keep in mind that remittances are private and family funds and, as such, there are essentially two stakeholders: the remittance sender and the recipient. In between, there are a host of actors: intermediaries in the transfer process, governments in both receiving and sending countries responsible for policy framework, supervision and facilitation, and institu-

tions engaged in research and seeking to enhance the development impact of remittances.

Given that remittances are private funds, they should not be viewed as a substitute for official development assistance.

Although there may be exceptions, most labour migrants go abroad to work in order to support their families back home and will therefore seek to send most of their earnings home, even in the absence of special inducements. For policy-makers, the issue is not how much more remittances can be earned through migration, but:

- how remittance channels (services) can be made more cost-effective, accessible, reliable, quick and transparent;
- how the development potential of remittances can be enhanced.

IV.4.2 Data collection

Use of remittances as a resource for development requires better information and data on remittance flows, usage patterns, transfer mechanisms, good practices and attitudes, and preferences regarding savings and investment schemes. Official records on remittances usually under-estimate remittance flows, although figures can also be inflated by the inclusion of non-remittance flows. In many ECA countries, under-reporting is more common given the lack of data on remittance collection and the number of informal channels for sending remittances.

Two problems in general with remittance data are also common to ECA countries. First, relatively weak financial systems and a high proportion of intra-regional migration suggest that a substantial proportion of total remittances is made through informal channels, yet data and estimates on informal flows are lacking. Second, the poor quality of data, faulty data collection or the recording of non-remittance payments as remittances distorts analysis of the data available.

Data collection is weak in many countries but can be improved by:

- putting in place a centralized data collection and reporting mechanism for banks and money

transfer organizations (MTOs); so that remittance flows can be recorded and measured;

- conducting surveys of households and key informants to assess types of remittance services and their efficiency; volume of informal remittances; use and impact of remittances;
- sharing of good practices among policy-makers, remittance companies, banks and micro-finance institutions (MFIs).

IV.4.3 Remittance services

Reducing remittance costs and increasing access to cost-effective, fast and safe remittance services, not only benefits migrants, but also potentially increases the funds remitted and made available to recipients.

Remittances are sent in various ways: through banks, money transfer companies, by hand or through a third party (e.g. Hawala transactions), depending on a number of factors. The remittance industry consists of formal and informal transfer agents. At the formal end are global MTOs, such as Western Union and Money Gram, as well as smaller MTOs serving specific geographical markets, such as Anelik Bank for Russia-Armenia (Textbox IV.3), global and national banks. Informal methods include unregistered MTOs, such as Hawala dealers, individuals, friends and relatives, bus drivers, traders and the like. The simplicity of the money transfer operation lends itself to the many unregistered actors who usually provide a service at a lower cost than the well-known MTOs.

It is generally recognized that fees for remittance services charged by global MTOs are high, regressive (higher for smaller amounts) and non-transparent. Fees may be as high as 20 per cent of the principal, depending on the remittance amount, channel, destination and origin country and service (World Bank, 2006). The average price is reported to be around 12 per cent of the principal in 2004. Currency conversion charges are even less transparent, ranging from no charge in dollar-based economies to 6 per cent or more in some countries (World Bank, 2006). Prices have declined in some high volume corridors, but still remain very high in low volume corridors, many of which concern ECA countries.

Leading players in the transfers market earn large profits, while the transaction cost for migrants remains relatively high, though it is beginning to fall. This situation is unwarranted when one considers that money transfer is usually a simple operation and constitutes a low risk. Where there is sufficient volume or competition, there is no reason why remittance channels should not be low cost, efficient and accessible. Research by the World Bank indicates that, for major MTOs, the cost of a remittance transaction appears to be far lower than the price (World Bank, 2006).

IV.4.3.1 Advantages and disadvantages of informal systems

Informal fund transfer systems (IFTs) such as Hawala can have legitimate and illegitimate uses. In some countries, they are legal and labour migrants find the system quick, cost-effective, convenient, versatile and anonymous. However, IFTs can also be used for illegitimate purposes such as circumventing capital and exchange controls, tax evasion, smuggling, money laundering and terrorist financing (El Qorchi et al., 2003). Typically, IFTs thrive in jurisdictions where the formal sector is weak or where significant market distortions exist. Fees charged are as low as 1-2 per cent of the remittance amount with a delivery time of 24 hours (Varma and Sasikumar, 2005; World Bank, 2006).

Remittances carried by hand through transport operators, couriers, friends and relatives is also common in certain regions including ECA, but is vulnerable to leakage during border-crossings and through theft.

Over-valuation of exchange rates, restrictive foreign exchange practices, lack of efficient, adequate and reliable banking facilities, and low relative rates of return on financial assets, as well as high transfer costs and low access to the formal sector explain why migrants use unrecorded remittance systems. Whether incentives can significantly divert remittances to formal channels when the fundamental services remain distorted and institutional deficiencies are not rectified is doubtful.

IV.4.3.2 Formal systems

(a) *Money Transfer Operators*

Global MTOs are the main formal remittance channels worldwide. The main advantages perceived by users are access, speed, reliability and simple procedures. Less costly alternatives have developed but are not as widely available. MTOs, such as Western Union, have good brand recognition (and have large marketing budgets). They are however relatively expensive to use, compared to the less costly services offered by smaller and specialized MTOs, such as Anelik.

(b) *Financial institutions*

Account-based services for money transfers are usually less costly. A comparison of the approximate cost of remitting US\$200 by major MTOs, banks, other MTOs, and Hawala found that banks were more competitive than major MTOs in all corridors where comparative data was available (World Bank, 2006).

IRNet, a credit union service, is also an innovative alternative to MTOs and charges a flat rate of US\$6.50 per remittance. However the sender has to be a member of the credit union. There are 14 countries in Europe/Central Asia and North America where the credit union is active (WOCCU, 2004).

Apart from being less expensive than MTOs, banks have the advantage of complementing remittances services with other financial products.

(c) *Other services*

Card-based innovations are also cost effective. For example, Visa offers four products for money transfer and has tie-ups with banks, MFIs, and retail outlets. It is a relatively new mechanism (with scope for growth).

Financial service providers and other organizations catering for the poor and migrants can forge creative institutional partnerships to provide remittance services. Alliances with banks, credit unions, postal networks, international MTOs and retail outlets allow them to leverage their strengths (proximity to clients) and overcome their weaknesses (limited transfer experience, restrictions on foreign exchange dealings and access to the payment system) (Isern et al., 2004).

One solution is the bundling of money transfers. In India, an NGO, Adhikar, is piloting a domestic money transfer service which centralizes the transfer and distribution of small transfers of migrants and routes them through one account in a partner bank. This brings down the transaction cost and generates a fee for the NGO. Another is the postal services with their wide network (and in some cases, already an actor in domestic remittances) which are attractive to MTOs for forming partnerships.

IV.4.3.3 Government initiatives

Over the years, governments in labour-sending countries have introduced a number of policy measures designed to influence the flow of remittances and increase flows through formal channels. As remittances are private transfers, these policy measures have largely take the form of incentives.

(a) *Financial products to attract remittances*

Currently India is the country receiving the largest amount of remittances. Non-Resident Indian (NRI) deposits were established in 1970 and have become one of the main ways of attracting savings by Indian migrants. A series of incentives were provided: higher interest rates, exchange rate guarantees, repatriation facilities, and exemption of wealth and income tax on savings and on interest. The incentives were created mainly to augment foreign exchange reserves and, once this was achieved, many were withdrawn during the 1990s (Varma and Sasikumar, 2005). NRI accounts have proved attractive largely to migrants belonging to the professional and skilled categories.

In recent years, one of the most important initiatives for attracting savings from Indian migrants has been floating specialized bonds for development purposes. Two such bonds, Resurgent India Bonds (1998) and the Indian Millennium Deposits (2000) raised US\$4.2 billion and US\$5.51 billion respectively (Varma and Sasikumar, 2005).

Other South Asian countries have also put in place additional incentives to attract remittances. In Pakistan, the government confirmed the importance of remittances as a tool for economic development by introducing a series of incentives in 2001. For a minimum remitted amount (US\$2,500-10,000), overseas

TEXTBOX IV.1

Anelik Bank Ltd.

Anelik Bank Ltd. was founded in 1990 in Armenia by a group of enterprises working in light industry. It was incorporated as a limited liability company in 1996. Its total capital is US\$3.7 million and it has 6 branches, 5 of which are in Armenia. The sixth branch, in Moscow, Russia, is incorporated as a daughter company, Anelik Ru. The Bank has credit programmes with the Eurasia Foundation, EBRD, USDA, IOM, and the World Bank.

Launched in 1997, Anelik's money transferring system allows individuals to make transfers without opening a bank account. The sender must provide the receiver's exact name, and the city and the country to which the money is transferred. Both the sender and the receiver must present identification to the respective banks. The cost of transfer ranges between 1.5 per cent and 3 per cent of the total amount transferred. Anelik guarantees that the money will be received within 3-24 hours. Anelik Bank has made money transfer a business focus and their fees are low. The same is true of Unibank, another Armenian Bank. Both banks serve the Russia-Armenia remittance corridor. There are large numbers of labour migrants from Armenia working in the Russian Federation. In 2003, fees from money transfer represented 91.9 per cent of Anelik's non-interest income and 48.5 per cent of total income.

Owing to their low fees, the two banks now account for most of the money transfers coming into Armenia and their pricing policies have brought some remitters using informal channels into the formal sector. In contrast to remittances to Armenia from Russia, there is greater use of informal channels for remittances to Armenia from western Europe where the formal channels are not as cost-effective.

Source: World Bank (2005); www.anelik.am/ru; Roberts (2004).

Pakistanis were given privileged access to higher education, public housing and share offerings, as well as free renewal of passports and import duty exemption (for US\$700 per year).

(b) Simplification of transfer procedures and extending financial network

When Tajik banks first handled money transfers from abroad, the procedures involved were so cumbersome that migrants would not use them. Moreover, between 1993 and mid-2001, the government levied a substantial tax on foreign exchange transfers. Through the abolition of this tax and simplified transfers, Tajik commercial banks have emerged as the main transfer mechanism for remittances.

National banks in South Asia have opened branches in migrant-receiving areas and established correspondent accounts with international banks in order to extend their financial services network. Similarly, MTOs have extended their domestic network through partnerships with local agents and the postal service. Streamlining of transfer procedures (in terms of both simplification and speed) has led to a marked increase in remittances through formal channels in Bangladesh.

(c) Counselling and advice

As a part of pre-departure orientation given to migrant workers, state overseas employment entities in the Philippines and Sri Lanka advise workers on how to remit their earnings. Similar information is provided to Tajik migrants through an Information Resource Centre established by IOM and OSCE in Dushanbe. However, it is clear that much more can be done in the area of providing information to migrants about the real costs of remitting and the various transfer options available in host countries.

(d) Access to services for irregular migrants

With the backing of the US and Mexican governments, Mexican Consular Identification Cards (CICs) issued in the US are becoming an accepted form of identification for opening US bank accounts, thus giving irregular migrants access to the formal financial sector. Mexican officials have successfully negotiated with banks and transfer agencies in the US and, since December 2001, some 15 banking institutions and their branches allow migrants from Mexico, whether legal or illegal, to open bank accounts on presentation of identity cards provided by the Mexican consulates. Migrants' relatives at home can then use ATM cards to withdraw funds for about US\$3 per transaction, much lower than the usual money transfer fee (Russell, 2002).

(e) Macro-economic policies and institutional framework

It is recognized by many experts in the field that the most important measure governments can take to stimulate remittance flows and realize its development potential is to create a sound policy environment that minimizes macro-economic uncertainty, ensures transparency, and introduces standardized regulation of financial institutions. Governments need to pursue sound monetary policies, such as correctly valued exchange rates, a positive real interest rate, and liberalized foreign trade. But this is not enough. Governments also need to establish an institutional framework for the safe and low cost transmission of remittances, for competition and for proper operations by all participants. Governments can stimulate remittance flows and realize their development potential by creating a sound policy and legal environment that encourages capital inflows, including remittances.

Reducing the cost of sending remittance and increasing access to cost-effective, fast and safe remittance services not only benefits migrants, but also has the potential to increase the level of funds remitted and made available to the recipient. There is ample scope in most countries to promote more efficient and safe services, including:

- promotion of regularization of the informal transfer sector through registration and filing of returns;
- promotion of sound macro-economic policies and financial sector capacity building and accountability, such as establishing simplified and clear regulatory frameworks for foreign exchange management and liberalization of the exchange rate regime;
- introduction of measures to deepen and widen the foreign exchange market and provision of specialized banking services for non-residents;
- encouragement of a larger number of banking and other financial institutions in the transfer of remittances;
- increased access to banking service points both in the source and recipient countries to reduce costs and increase efficiencies;
- strengthening of communication systems and relationships with the diaspora in different countries;
- transformation and adaptation of formal transfer

systems to make them faster, more flexible, more cost effective and more accessible in order to reduce use of informal systems by migrants and their households;

- adoption of innovative linkages between information technology and financial transfer systems to reduce the cost of remittance flows, taking into account the best national and international experiences;
- information campaigns encouraging migrants to open a bank account of their choice, during the emigration clearance procedures for departing workers;
- offer of low cost pre-departure loans as a way of encouraging migrants to use formal banking channels;
- dissemination of information on remittance services and options via pre-departure orientation and in MRCs established in countries of destination;
- enhanced coordination between Ministries of Labour Migration and Finance, major financial institutions and other agencies, as appropriate, on the issue of external labour migration and associated remittance flows;
- capacity building through improved consular services for migrants, including creation of data bases and issue of secure identity documents, which facilitate use of formal remittance channels.

IV.5 Enhancing the Impact of Remittances on Development

Migrant remittances constitute an important source of foreign exchange, enabling countries to acquire vital imports or pay off external debts and also play an important role in reducing poverty. There is growing awareness of the potential that remittances have to contribute to economic development in migrant-sending countries at the local, regional and national levels. Given that remittances are private funds, measures to enhance their development impact should not be involuntary in nature for the senders and recipients.

IV.5.1 Recipients' strategies for remittances

An IOM survey carried out in Guatemala (Guatemala, 2004) found that recipient households used 53 per cent of remittances to buy basic items such as food and clothing. A further 11 per cent was spent on education and health. As much as 36 per cent was directed to savings, economic purposes and for the purchase of assets, including housing.

Studies in CIS countries (Tajikistan, Moldova, Armenia) have found that the amount allocated for savings and investment is small. In Tajikistan (Olimova and Bosc, 2003), labour migration and remittances have not led to individual accumulation of wealth nor have they accelerated the pace of SME development. Nevertheless, as a survival strategy, labour migration has become a crucial stabilizing factor to offset the effects of economic crisis. IOM and UNDP have initiated a pilot project to take things further (see below).

Where the investment climate is safe and returns attractive, migrants have invested in financial instruments for development (India, via development bonds). Philanthropic contributions have also resulted (Latino Hometown Associations in the United States).

IV.5.2 Leveraging remittances

A number of countries, including Brazil, El Salvador, Mexico, Panama, and Turkey, have introduced remittance-backed bonds to raise funds at lower interest rates on international bond markets. This initiative may be premature for countries where financial institutions do not have experience with issuing bonds on international markets, but the idea of remittance-backed bonds is very interesting, though it needs to be evaluated cautiously (Roberts, 2004). As mentioned earlier (in Section IV.4.3.3), financial products have been developed to attract savings and investment from remittances.

Some governments have instituted special programmes to assist the reintegration of returning migrant workers and stimulate investment and business develop-

ment. Such initiatives have basically taken four forms:

- facilities for importing capital goods and raw materials;
- business counselling and training;
- entrepreneurship development;
- access to loans.

IOM and UNDP are implementing a project in

Tajikistan that matches investment of remittances in livelihoods and businesses with training, credit and advice (see Text Box IV.2).

Financial intermediaries can attract migrant deposits and channel them into loans for existing small and micro-businesses. In other words, labour-sending countries might wish to encourage micro-finance institutions (MFIs) to at-

TEXTBOX IV.2

Pilot Project on Enhancing the Development Impact of Remittances

Tajikistan is the largest labour-sending country in Central Asia. One in four families has at least one member working abroad. The total labour migration out of Tajikistan in 2004 was estimated at 600,000, almost 10% of the total population of 6.8 million. The amount of remittances sent home by labour migrants from Tajikistan through official channels is US\$240 million, which is much higher than the country's annual budget.

While the remittances sent to Tajikistan help the migrants' families to solve some of their financial problems, a large amount of these resources is used to cover their immediate needs. Investment in longer term sustainable economic activities is limited.

In partnership with UNDP, IOM is enhancing the capacity of migrant households, local communities and civil society actors to promote the investment of remittances in viable livelihoods for migrant families. In coordination with local development committees, small business and agricultural loans were extended to labour migrant households investing a matching amount from remittances. The total investment amounted to approximately US\$80,000. Loans were linked to business training and preparation of business plans. In addition, labour migrants made matching contributions to repair community infrastructure (schools, clinics, bridges, transformers).

Source: IOM Dushanbe.

TEXTBOX IV.3

Albania – Action Plan on Remittances

It is estimated that over 20% of the Albanian labour-force, predominantly young males, have left Albania for Greece, Italy and other western European countries since the 1990s. Together with this high rate of migration, it is estimated that a minimum of US\$650 million (approximately 20% of GDP) was remitted to Albania in 2003, making Albania one of the countries most dependent on remittances in the world.

In 2004, the Albanian Government approved the National Strategy on Migration (NSM) and its action plan. With regard to remittance management, unlike other sections which were fully elaborated, the National Strategy outlined the need to establish a detailed plan of action for creating and implementing a coherent and comprehensive policy on remittance management. To rectify this oversight, a workshop was held

in November 2005, entitled "Competing for remittances, linking emigration of Albanians and development of Albania", during which partners agreed on the need to create an interagency working group which would strengthen statistical collection facilities, undertake empirical analysis, and pursue policy development initiatives. The workshop also provided an opportunity to develop the NSM action plan with relation to remittances and led to a call to promote and carry out related research activities and longitudinal studies on remittance flows, with a particular focus on remittance behaviour, return potentiality, and related issues. The workshop also underscored the necessity to design policy that would lead to the creation of a conducive environment and incentives for using remittances in income generating activities.

Source: IOM Tirana.

tract remittances. Banks, credit unions and regulated MFIs are in a good position to leverage the economic impact of remittances. Remittances can also be used for housing loans. For example, the Guatemalan government and IOM are developing an innovative project which will finance low-cost housing for migrant families from remittances together with housing subsidies.

The Latino Home Town Associations (HTAs) in the United States draw together people from the same town or state in the country of origin and enable them to retain a sense of community as they adjust to life in the US. Typically, their first purpose is social, linked to activities in the hometown. Perhaps the most successful and best-known example of migrant involvement in a range of development activities can be found in Mexican HTAs. The Mexican state of Zacatecas has one of the oldest matching fund programmes and it has now been emulated by two other states in Mexico. Under these programmes, the Mexican government teams up HTAs and other actors to spur economic development. Initially, for every dollar donated by emigrants, the federal and state governments added US\$1 each. In recent years, the municipal government is an equal contributor as well. HTAs tend to fund projects that benefit the entire community, in areas such as education, health, sanitation, and civic works (Rodolfo and Lowell, 2002).

As mentioned in section IV.4.3.3, the most important measure governments can take to stimulate remittance flow and realize its development potential is to create a sound policy environment that minimizes macro-economic uncertainty and ensures the transparency and standard regulation of financial institutions. In tandem with incentives, the most important step governments can take to stimulate remittance flows and realize their development potential is to create a sound policy and legal environment that promotes capital inflows, including remittances.

An indicator of financial sector stability is whether people commonly use banks for depositing their savings. This is not the case in many ECA countries.

The World Bank (2006) has recently argued that incentives to increase flows and channel them to more productive uses is more problematic than reducing

transaction costs and improving the overall savings and the investment climate. There is no doubt that the benefits of reducing transaction cost are obvious, and that improving the overall climate for savings and investment is critical, but the latter is often a medium- to long-term process for States. In the interim, incentives and specific opportunities for investments by migrants in their country of origin may be helpful, particularly if there is a foreign exchange crisis. Similarly, much more can be done in building the capacity of HTAs and their partners in the effective implementation of development projects, and in evaluating whether national funds are being diverted away from better uses. However, there is little doubt that mobilization of philanthropic contributions from Diaspora organizations for grass-roots development is a positive measure.

Many ECA countries are active participants in internal, regional and inter-continental migration and this trend will continue at least in the medium term. As migration drives remittances, remittances will continue to play an important role as a source of finance in these countries.

It should be recognized that remittance inflows are the source of not only foreign exchange receipts, which can be used to finance the balance of trade deficits or the current account deficit, but also of productive investment and social development. Bearing in mind that remittances are private funds, in addition to improved data collection and reduced transfer costs, the development potential of remittances can be magnified in labour sending countries by:

- identification of productive and sustainable avenues of investment for remittances, for instance by facilitating the setting up of enterprises directly by migrants or through intermediate mechanisms, transferring savings via deposit accounts and specialized bonds, and developing loan products for migrants and their families for projects such as housing;
- formulation of policies that enhance the contribution of migrant associations to the development of the country of origin;
- Improvements in the overall savings and investment climate.

IV.6 Education, Training and Skills Development

It is clear that abuses in recruitment are less common for skilled occupations since migrant workers are usually better educated and more aware of the dangers and have better terms and conditions. Some labour-sending countries have recognized this and now concentrate on raising workers' skill levels to improve their employment opportunities. Enhancing a person's human capital as well making information available on job opportunities are both equally important.²

Good information about domestic and foreign markets and its adequate dissemination to stakeholders is essential in every step of the migration process. This must be good information about employment opportunities and skill requirements as regards the domestic and foreign markets.

Setting quality standards in higher education/training programs is of obvious importance for the global labour market. The International Maritime Organization Standards of Training, Certification and Watch-keeping were established by the International Convention on Seafarers in 1978 and have been adjusted regularly to meet developments in the sector. As a member of the organization, the Philippines has implemented the standards and this has significantly helped the employment of its seamen on international shipping lines, where they represent 20-25 per cent of employees. In contrast, Filipino nurses experience greater difficulty finding employment in OECD countries because of the low quality of their nursing education, yet nurses with the highest qualifications tend to migrate, leaving the domestic market in short supply.

Education not only gives a person greater advantages in making the right migration decision, but matching education and skills to those desired in destination countries qualifies him or her for the best available job abroad. There should be education and training institutions providing training of relatively high demand which students will want to pursue and

may be prepared to pay for if necessary. Even if training in the desired skills exists, students still need to have access to information on foreign demand for skills and the financial resources to pay for the training. Poor information will lead to bad choices, while financial constraints prevent students from pursuing the most desirable qualifications.

Countries of origin should develop training facilities for prospective students prepared to acquire the education that domestic and foreign markets are seeking, yet this is not a simple task for governments to address. They will have to adopt an **education and training policy and strategies to meet the prospective demand for skilled human resources**. In this task, they will have to address the following issues.

IV.6.1 Developing education/training programmes

IV.6.1.1 Defining requirements in quantity and quality

There is currently demand for major skill categories, such as engineering, computer science, natural science, management and finance, education, and medicine.

In ECA countries, governments have established extensive educational systems and their populations have achieved high schooling levels by world standards, more than 9 years in the former USSR countries. More than 50 per cent of the adult population (25 years and older) have received a secondary education, and a high proportion have undertaken further studies. Reforms are required to introduce training programmes in skills for which there is demand, improve quality of training and to focus on advanced education with development externalities. Sharing the cost of tertiary education with students and their families will free resources for reform measures.

ECA countries may seek to participate in the ongoing European OECD programme which sets a standard core curriculum and accreditation system for selected fields of study. The programme aims for a mutual recognition of degrees obtained in the various member countries.

IV.6.1.2 Financing higher education

This is a critical issue for most governments. Education benefits the person concerned and families and students have been willing to bear the cost. However, subsidies for education are warranted for courses that have positive externalities or are viewed as a basic need. This is not an issue for primary education, since it is considered a human right, but there are no obvious externalities in secondary and higher education as a whole. However, advanced instruction for research and development has been supported as it contributes to technological change, improved management and organization, enrichment of culture, policy-making, curriculum development and teaching materials, etc. Many countries are trapped into subsidizing education in most categories, either because of traditions inherited from past decisions or colonial government or because political pressure from the public. An indiscriminate system of subsidy adopted in some countries tends to obstruct efforts for improving the efficiency of education. ECA countries face greater difficulties reforming the financing of education as their populations are used to a fully subsidized education system. National governments in these countries could concentrate subsidies to higher education in priority programmes of instruction and research.

IV.7 Emigration of Skilled Human Resources

Skilled migration or “brain drain”, in particular, has come under strong criticism on the grounds that it can have a cumulative negative effect on fragile economies. There is also an ethical dimension as the poorer sending countries bear the costs of educating the potential migrants, while the receiving countries reap the benefits. The issue can also be seen as one of “brain overflow”. Viewed from this perspective, emigration reduces the supply-demand gap for skilled workers in developing countries and ensures optimal allocation of unused human resources.

Clearly, however, when there is a skill shortage or when skills are difficult to replace, the cost is high for the sending country. This is the case in Africa, for example, which, as a region, may have lost one-third of its highly skilled personnel in recent decades. The problem has been less serious in Asia.

The following steps can be taken, though they should not prevent migrants from exercising their right to freedom of movement:

- promotion of ethical recruitment to prevent indiscriminate international recruitment in development sensitive sectors such as health, particularly in small and fragile economies, through recruitment under bilateral labour agreements;
- creation of systems to recoup some loss of investment in countries of origin by inclusion of practical training as part of select higher education programmes, investment by destination countries in training and education proportional to the loss in investment suffered by the country of origin, and retention of skilled workers through voluntary means;
- better targeting of subsidies in higher education (as described in Section IV.6.1.2).

ENDNOTES

- 1 This section is reproduced from IOM (2005b).
- 2 A person’s human capital consists of formal education, skill honed by work and other experiences and desirable traits such as discipline, integrity and sociability.