

Collective Remittances

An Economic Solution to Fund Cities



*“What I propose here is to make a **qualitative jump**, at least at the conceptual level, and to create an ideal model of **co-development** that involves **all the territorial levels** of government in both the **sending and receiving** countries.” (Miryam Hazán Béjar in a 2011 Working Paper)*

The Growing Importance of Remittances

It is no secret migrant remittances to under-developed and developing home countries represent massive amount of financial flows and constitute enormous sums that bypass official development assistance (ODA). 2012 World Bank data estimated that informal **remittance flows reached approximately \$USD 401 billion** (5% increase when compared to 2011 data). ODA, on the other hand, reached \$USD 125.6 billion (4% decrease when compared to 2011 data). While **ODA from OECD countries is slowly decreasing**, migrant **remittances are expected to grow by 8.8% annually**, up to \$USD 515 billion/year. Local authorities in both sending and receiving countries have an important

role to play in facilitating these transfers and optimizing their impacts. However, there is an on-going and heated debate in the academic and migration policy circles about the **impact these funds really have on the development of home countries, including regions, cities, and villages**. This note analyses the development of the strategies and tools to **link collective remittances and local development**. The challenge is to determine how these projects can better leverage these funds to improve the living conditions of urban dwellers in the receiving countries.

A Transnational Funding Strategy

Collective remittances is an increasingly usual term describing savings collected by (formal or informal) groups of

migrants living in a particular country and sent to the country of origin, often for the purpose of a specific project. This process requires and strengthens strong partnerships between a variety of actors, including community-based organizations in the country of origin, as well as private contractors, local authorities, and of course the diaspora. It is important to stress out that individual remittances are often spent on the most immediate needs of the receiving families such as food, clothing, land and construction (for farming or renting income-creating activity), or debt repayment. However, their spillovers can also be harmful, as they may create social tensions, economic inactivity, and dependency from exogenous sources of income.

Despite these issues, collective remittances are still seen as a possible way to mobilize more effectively the financial transfers from the diaspora coming to the home country.

From Migrant Host Countries...

There is not a single common pattern when collective remittances are concerned. When comparing two groups of migrants coming from the same country, but living in two different host countries, the remittance patterns will not be similar. 43% of Indonesians in Japan, for example, contribute to funding a migrant association, for 88% in Malaysia. Thomas LaCroix's study of Algerian Kabyles, Moroccan Chleuhs in France and **Indian Punjabis in the U.K.** shows that migrant engagement in hometown projects may be attributed, to some extent, to their integration into the host society. Algerian Kabyles, for example, are known as the least

engaged in trans-national projects. They are also experiencing low social mobility and economic integration in France. **Moroccans in France** on the other hand have been active for decades, funding for example wells that helped home communities to survive a massive drought during the 1970s. An additional study on remittance by Jørgen and Hoelscher's explored the capacity of collective remittances from Norway, showing that integration and transnationalism are not competing, but are rather complementary. Therefore, creating inclusive social and economic conditions for migrant populations may have a more positive local *and* trans-national impact than local authorities would think first.

...to Countries of Origin

To date, sub-national governmental authorities in Latin America and Asia have proven the best initiative and coordination in mobilizing their diaspora for a purpose of local development. In addition to the case of Mexico explained below, the province of **Junin, Peru** established in 2008 an "Alliance for Co-Development" aiming at raising awareness among local entrepreneurs, inciting remittance-receiving families to use their funds for more productive uses, and highlighting the existence of local investment opportunities. In order to be better connected, mayors and local authorities' representatives from Mexico and other Latin American countries now often visit migrant associations, especially in the United States.

In Asia, local authorities are known for contacting transnational families in order to find out more about the migrant and his potential participation

The 3X1 Program in Mexico

The 3X1 program is a municipal governmental plan on remittances. For each collective remittances dollar sent by hometown associations, one dollar is matched by each level of government (national, state, and local). The four-part financing (25% each governmental level and 25% by hometown associations) is found also at the project selection process as each financial contributor is given one vote.

The program was pioneered in Zacatecas State, Mexico in 2002 and coordinated by both hometown associations in Southern California and the governor of Zacatecas state (who was at that time Vicente Fox, former Mexican president). In 2005, Western Union, one of the leading financial service companies, specialized in money transfers, joined the program to support several projects across Mexico, renaming the program as 4X1.

This scheme helps local governments to direct financing from abroad migrant associations to "productive" community projects that create long-term benefits. Although those projects are usually infrastructural or social developments ones, which contribute to enhance economic activity and employment in the migrants' local communities, a technical assistance is also provided to support hometown associations targeting their investments in productive businesses, such as shops, services and light manufacturing.

The concept of strengthening the link between remittance and productive development is thus developing.

For more information about the 3x1 program, please see FMDV's publication on [Endogenous urban funding in South America](#).



to a development project.

The **reactivity of Philippine local authorities** inspired the central government to create new facilitating tools, including the creation of transfer incentives and PHILNEED - a platform displaying projects of local authorities and NGOs in which the diaspora can invest. India is another large receiver of remittances where some State governments (such as the **State of Punjab**) have set up co-funding schemes for collective remittances.

Experiences of local authorities engaging with collective remittances exist in Africa as well, leading to various results. In Senegal, the largest remittance receiving country in French-speaking Africa, Project SPES (operated by the Migration for Development program of the EU, the Swiss Cooperation and the United Nations) succeed in fostering the abilities of migrant associations in the **cities of Sardinia and Piedmont, Italy** to select sustainable development projects and later work with local actors in the **Regions of Louga and Saint-Louis** to achieve productive investments. Local authorities in both Italy and Senegal played an important role in information sharing and advocacy as they fully recognized the migrant community as a potential source of development.

A resource to finance urban development?

Remittances can improve living condition. Yet, their positive impacts could be fostered if local authorities implemented appropriate policies and reforms to support remittances.

Host local authorities could take a first step in showing solidarity with the remittance-receiving local authorities by **increasing the migrants' ability to remit by facilitating their economic integration.**

Home country local authorities could also support appropriate financial infrastructure for receivers to leverage the remittances (such as the investment center in the Bohol province, the Philippines). They could as well reinforce information sharing so that migrant associations would be able to wisely choose the developmental projects to support.

A publication by the Economist Intelligence Unit raised the risk of the collective remittances' ability to create

the same dependency as intra-family remittances but at the local government scale, ultimately eliminating incentives for local authorities to generate their own revenue and to improve economic and financial management. To mitigate this risk, local authorities should integrate these funds as a complementary resource. As the matter of fact, the ownership of the projects remains in the hands of the diaspora (who therefore manage the project selection process) and the benefitting community. Despite the weakness of the link between collective remittances and development impact, **local authorities and local leaders** have an important role to play if we are to see a strong, positive correlation emerging. □

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REolutions to Fund Cities

*This "Economic Solution" has been produced within the context of FMDV's **REolutions** program. REolutions, a four-year international program, offers an invitation to all urban actors to **Rethink Economic solutions** that operationalize sustainable, efficient, and resilient local development.*

Initiated by a consortium of local authority networks, REolutions concentrates on identifying, analyzing, transferring and pilot-implementing economic and financial strategies and mechanisms that have improved the impact and performance of local urban development policies.

Anchored and articulated at the regional level in a multi-actor setting, REolutions seeks to equip local authorities with the tools to integrate and operationalize a wide variety of financial resources for the endogenous development of their cities.

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