

undertaken extensive research on remittances, as has the United Kingdom's Department for International Development (DFID) and the Norwegian International Peace Institute (PRIO). All propose ways forward for more proactive policies by sending countries—for example, to support migrant associations, facilitate low cost, reduce bureaucratic remittance transfer, greater competition in the remittance market, and inform decision making by migrants and affected communities.

Immigration policies. Policies that affect the size, type, and tenure of migration flows also affect remittance patterns. A larger migration stock would in general imply larger remittance flows to the country of origin. Given the migration stock, a larger share of temporary

migrants is likely to lead to larger remittances. Also, as discussed above, the ties of migrants to their home country weaken with the passage of time, causing remittances to decline.

Given the personalized nature of remittances, governments are unlikely to have much success in using remittance policies to steer migration differently. Some countries, like Canada, France, and Germany, have tried to direct remittance flows to investments in the home country to encourage return migration, but these efforts have met with little success. There are also some examples of “forced” remittance transfer programs between sending and receiving countries, although these raise vexing legal issues and do not appear to be effective either in encouraging migrant return or mobilizing resources (box 4.4).

Box 4.4 Forced remittances

While it is generally assumed that migrant workers are free to choose how much, when, and to whom to send money, there have been cases when sending or receiving governments, banks in the home country, or employers have decided to retain a certain proportion of pay for remittances. The rationale for such “forced” remittances is to ensure that temporary migrant workers do not stay on, but return home after the end of their contract. Sometimes, the objective of such measures is to steer the use of remittances to investment in the country of origin.

For example, from 1942 to 1964 the “Bracero program” regulated migration of 4.6 million farm workers between Mexico and the United States. From 1942–9, a tenth of the wages earned by these *braceros* was deducted from their pay by the U.S. employers and paid into accounts held by the Bank of Mexico at two commercial banks in San Francisco. From there it was transferred to the Bank of Mexico and then on to the Banco de Credito Agrícola. Alternatively, the employers gave the worker a check for the deducted amount at the end of the contract to be cashed back home in Mexico. A 1946 report by the Mexican government claimed that

\$8 million in forced savings had been paid out to *ex-braceros* and only \$6 million was unaccounted for; but the *LA Times* reported (on March 30, 2001) that a total of \$34 million in forced savings was collected during 1942–6. The loss of the money was explained by successive bank consolidations and restructuring, and as a result, records of accounts had disappeared (Migration News, <http://migration.ucdavis.edu/mn>). The *braceros* were mostly poorly educated peasants, who did not even know about the deductions and who later were intimidated by the forms and correspondence needed to claim their money (*LA Times*, op.cit.). In March 2001, a class action suit was filed on behalf of former *braceros* at a San Francisco district court claiming \$30 million–\$50 million in savings not returned and additional punitive damages. This claim was rejected because of the statute of limitations (*San Francisco Chronicle*, August 29, 2002). In 2003, the Mexican government agreed to reimburse, within six months, an upfront sum of \$150 per person and then monthly rates of pesos 200 for up to pesos 60,000, provided the *ex-braceros* could produce identification (the Bracero Net program).

Forced remittances may also be used by a government to encourage the use of remittances for

Box 4.4 (continued)

investment in the domestic economy. Under the Deferred Pay Scheme, mine workers from Lesotho have 30 percent (initially 60 percent, until 1990) of their pay deposited at a Lesotho bank and the balance into a savings account at TEBA (The Employment Bureau of Africa) Bank. The certificate confirming the identity of the account holder is handed out by the TEBA Bank at the end of the contract, before the mine worker goes home to collect the balance from the deferred pay scheme.

A similar arrangement is foreseen in the memorandum of understanding between the Governments of Thailand and Laos on employment cooperation. All Laotian guest workers are obliged to pay 15 percent of their earnings into a “deportation fund” set up by the host country, Thailand. Workers who wish to return home can claim their contribution in full with interest. The request must be filed three months before the return date, and the money is to be paid to the workers within 45 days after the last day of employment (articles 11 and 12).

A milder form of induced remittances has been introduced for temporary Mexican farm workers in the United States and Canada. Before their departure visas and work permits are issued, the temporary farm workers register with the Ministry of Labor in Mexico. After the papers are delivered, migrants open a savings account with the subsidiary or an associated institution of a North American bank in Mexico. Once they arrive in the United States or Canada, the temporary workers either make the remittance transaction themselves or arrange with

the farmer-employer to pay directly into their savings account via payroll deduction.

Forced savings of this type raise legal issues in that they violate an accepted principle of wage protection, that is, the idea that “wages shall be paid directly to the worker concerned” (article 5 ILO Convention 95 of 1949). The only exception provided for is that the “worker concerned has agreed to the contrary.” It is not clear whether that has been the case with the *braceros* or with the other examples cited here. Convention 95 states that “employers shall be prohibited from limiting in any manner the freedom of the worker to dispose of his/her wages.” Article 8.2 further spells out that “workers shall be informed of the conditions under which such deductions may be made.” (Mexico ratified this convention in 1955. The United States has not ratified it.)

Forced remittances are also probably not the most effective measure to ensure that temporary migrant workers return home. If they return, it is likely not driven by their desire to reclaim their savings. When offered a choice, migrants avoid such systems. In South Africa a considerable number of mine workers from Lesotho did not participate in the deferred pay scheme, often in complicity with the mining companies (Sparreboom 1996, p. 13). If the Lesotho deferred pay scheme was voluntary, then the volume of savings would drop to a level of the voluntary schemes of workers from Botswana and Swaziland, namely 1 percent of the levels of the obligatory scheme (TEBA 1995).

Banking and financial markets. Greater relaxation and competition in money transfer markets leads to reduced prices and more money reaching the beneficiaries. This process is facilitated further by improving access of remittance service providers to national payment and settlement systems. This seems to have worked well within framed agreements such as the United States–Mexican Partnership for Prosperity program of 2001, involving the *matricula consular* to improve banking access

of Mexican immigrants in the United States and low-cost electronic transfers through the Federal Reserve Bank’s automated clearing-house system for Mexico (see chapter 6). Spain has initiated agreements between Spanish and Latin American financial institutions to reduce transfer fees and foster the entry of new agents into the financial market, particularly in rural areas. In the past, Germany worked closely with Turkey to encourage remittances into formal channels