

# The (Missing) link between remittances and local development

## Evidence from Morocco

### Abstract

Though remittances represent a very important contribution to Morocco's balance of payment, their role at the microeconomic level is still little explored. The article presents original empirical material collected during a field study carried out by the author in two rural provinces. Some important conclusions can be drawn on the microeconomic impact of remittances on local development and qualitative indications on the patterns of utilization of remittances and of the existing institutional framework that stimulates their use can be identified. This has enabled the author to pinpoint the existing bottlenecks and some areas of policy intervention to stimulate their productive use and increase their accelerating capacity. The relevance of these indications for the Euro-Mediterranean partnership's co-development objectives is also highlighted.

### Résumé

Bien que les transferts d'argent constituent une part importante dans l'équilibre de la balance des paiements, leur rôle, au niveau micro-économique, demeure peu exploré. Cet article reprend des données empiriques nouvelles récoltées lors d'une enquête de terrain effectuée par l'auteur dans deux provinces rurales du Maroc.

D'importantes conclusions peuvent être dégagées concernant l'impact micro-économique des envois d'argent sur le développement local. Des indicateurs qualitatifs concernant les modèles d'utilisation des envois d'argent ainsi que des cadres institutionnels existants qui encouragent leur utilisation peuvent ainsi être identifiés. Ce cadre de recherche a permis à l'auteur de faire resurgir les anomalies existantes ainsi que certaines politiques d'intervention de nature à stimuler l'utilisation avisée des transferts d'argent, à améliorer leurs retombées sur la population qui en bénéficie et à augmenter leur efficacité économique. La validité de ces indicateurs concernant les objectifs de co-développement du partenariat euro-méditerranéen est, de même, mise en avant.

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## 1. Introduction

Current estimates calculate that some 150 million people live outside the country of their birth (IOM, 2000). But at about 2.5 percent of the world's population, this proportion is not much different from earlier periods when population movements peaked, and much less compared to 19<sup>th</sup> century migration when as much as 10 percent of the world population migrated. However, people's movement, though remaining lesser liberalized than that of capital, goods and information, has become increasingly transnational.

Today, migrants do not necessarily move in order to start a new life elsewhere, but rather to improve the one they have in the country of origin (Kyle, 2000). Even though they remain abroad for extended periods or eventually settle there, the flow of money back home to sustain relatives continues. Also, it has been found that even if the entire close family resettles abroad, relatives and other more distant family members can count on remitted money in time of economic crisis (Gardner, 1995).

The economies of sending countries increasingly rely on the migrant remittances, although the institutional links between the migrants and their home countries are not easy to establish. For sending countries' governments, the concerns and demands coming from a growing proportion of their population living abroad cannot be hidden any longer.

Migration studies and economic literature have traditionally examined the role of the migrant in the process of economic growth for the host country, while, at the same time, highlighting the problem of the brain-drain for the sending countries. Today, the role of the migrant as a development actor is increasingly studied also in terms of the country of origin. In particular, the experience of Mexican communities in the U.S. since the creation of the North America Free Trade Association, and the role of remittances have begun to be debated among policy makers and academics with a renewed interest (Orozco, 2003). Nevertheless, policies and trends remain very local and culturally embedded, and any replication of them in other contexts is likely doomed to fail.

In the North African countries, the question of how the institutional framework can support the utilization of the migrant's economic, social, and political resources and skills is still left unanswered. This represents an important window of opportunity for re-launching the de-centralized cooperation between the countries of the two shores of the Mediterranean Basin. The issue of migration and of its connected phenomenon of remittances is so crucial to the relationship between the European Union and the Mediterranean countries that the rejuvenation of the Euro-Mediterranean Partnership can find in the remittances and their potential utilization for development projects a new instrument for co-development.

This article will deal exclusively with Morocco, and will focus on the link between financial remittances and local development, although it is part of a larger research project that analyzed several aspects related to the issue of remittances in the Mediterranean region (1).

## 2. Remittances : current global trends

Monetary remittances' importance and magnitude can be measured in different ways. They can be compared with merchandise exports, or as a share of GDP, or compared to foreign debt, tourist sector, development aid or FDI flows. Informal transfers (through friends, family members, financial couriers or networks of transfer agencies) are often excluded from official data sources, due to the difficulties in quantifying them. The official figure represents the tip of the iceberg. For example, in Pakistan, Philippines, Sudan and Egypt, several studies have shown that informal transfers are twice or three times the official figure. (Van Doorn, 2001). Remittances are often small amounts and channeled by individual migrants in different ways. However, their total amount is substantial (Puri and Ritzema, 1994).

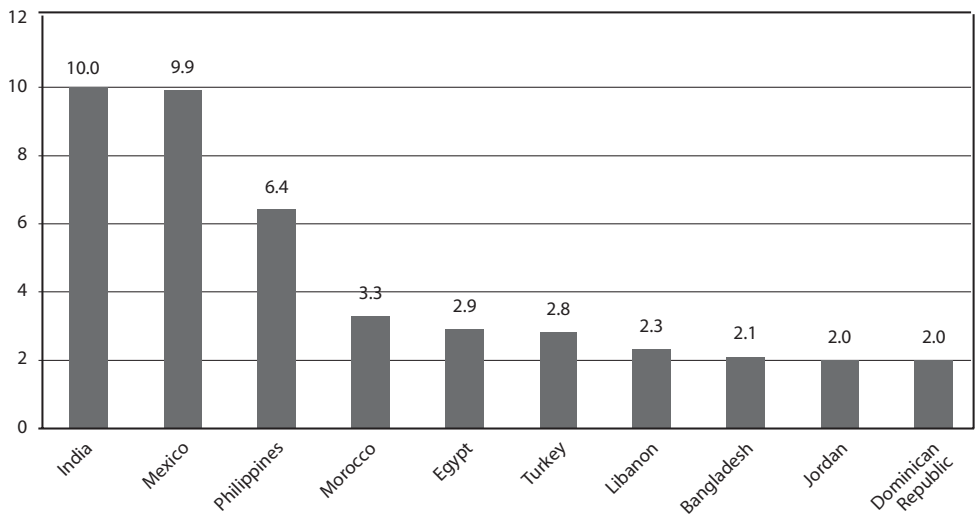
There are different ways to estimate the flow of remittances, and there is no universal agreement on methods. The International Monetary Fund includes three categories in its Balance of Payments Statistics Yearbook as remittances. The first one is the workers' remittances i.e. the total of monetary transfers sent from workers who live abroad for more than one year. The second is the compensation of employees, i.e. the gross earnings of foreigners residing abroad for less than a year. The third category is migrant transfers, i.e. the net worth monetary transfer of migrants who move from one country to another.

In 2000, remittances from abroad accounted for more than 10% of GDP in developing countries, such as El Salvador, Haiti, Ecuador, Eritrea, Jordan, and Yemen (UNPD, 2002 and World Bank 2003, cf. graphs 1a and 1b).

Remittances play a central role in the monetary stability of many developing countries and are crucial to the survival of poor households. Furthermore, they represent a very stable source of capital transfer. During the Asian crises, at the end of the nineties, remittances continued to rise steadily when private capital flows declined (Ratha, 2003). The Global Development Finance 2003 Annual Report took formal notice of this role for the first time. In 2001 migrant remittances were estimated at over 100 billion USD, i.e. more than global official development assistance, more than capital market flows, and more than half of foreign direct investment flows. About 60 percent of global remittances were sent to developing countries in 2000, which shows how important they are for their economic and financial stability. According to Gammeltoft, lower middle-income countries receive the largest amounts, but for low-income countries remittances represent the main source of foreign capital (Gammeltoft, 2002).

(1) This article draws on the findings of the research project "A favourable macro-economic environment, innovative financial instruments and international partnership to channel workers' remittances towards the promotion of local development. Two case studies in Morocco and Tunisia", coordinated by the Federico Caffè Centre and co-financed by the European Union under the Femise Network Research Programme, contract FEM-21-08. The preliminary findings were presented at the Femise Network Conference, 4-5-6 December 2003, Marseille. I acknowledge the contribution of the other members of the research team and in particular Ninna Nyberg Sørensen, Bruno Amoroso, Marco Zupi and Alberto Mazzali, Chadia Arab and Francesco Slaviero for their invaluable support to the research. Any omission, errors and opinion reflected in this article are entirely mine.

Graph 1  
**Remittances on a Global Perspective : Top 10 developing-country recipients of workers' remittances, 2001, billions of dollars**



Source : World Bank Finance Report, 2003.

Before analyzing the literature about the link between remittances and local development, it is necessary to take a closer look at the typology of remittances, the actual transfer mechanisms and the factors conditioning the impact of these transfers. Given that remittances may have different meanings in different context – and that the precise way in which remittances are conceptualized and measured varies enormously – a few definitions are given below.

**Some definitions of remittances (2)**

Remittances are generally defined as the portion of a migrant’s earnings sent back from the migration destination to the place of origin. Although remittances can also be sent in-kind, the term ‘remittances’ usually refers to cash transfers. In most of the literature, the term is further limited to refer to *migrant worker remittances*, that is to cash transfers transmitted by migrant workers to their families and communities back home (Van Doorn, 2001). While migrant worker remittances probably constitute the largest part of total global remittance flows, this briefing adopts a broader definition including transfers from refugees and other migrants who do not benefit from the legal status of migrant workers (3).

The advantage of adopting a financial as well as a social definition of remittances is that this allows for an understanding of migration as a social process in which migrants are agents of change, economically as well as

(2) This section of the research project final report was particularly developed by Ninna Nyberg Sørensen and here reproduced.

(3) It must be taken into account that refugee remittances are included in global flow statistics, but not in analyses.

socially and politically. As argued by De Haan (2000), this is relevant for policies: “an understanding of the role of migration may help to make policies more relevant to people’s livelihood strategies [...] and may help devise measures in which migration can be supported, building on the ways groups have facilitated migration, and thus build on people’s capabilities and assets” (De Haan, 2000, p. 4).

Remittances can be transferred within and/or between countries. *Intra-national* remittances are transferred by persons who migrated within their countries of origin (including internally displaced persons), whereas *international remittances* are transferred by migrants who crossed an international border. Geographical categories may nevertheless be less important than understanding the role migration plays in livelihood strategies. Assessments of the importance of migration are often based on an idea of different economic areas, rather than conceptualizing areas of origin and destination as a singular economic space (De Haan, 2000). Though migrants from developing countries potentially can earn more by migrating abroad, even within countries wage differentials can be huge and intra-national remittance transfer fees are generally lower due to the absence of foreign exchange issues and related financial regulations (van Doorn, 2001).

The bulk of remittances are sent by individual migrants – *individual remittances* – yet a smaller fraction is sent as *collective remittances* by groups of migrants through community or church groups. The latter form is often organized through *hometown associations* (HTAs) consisting of migrants from the same town or parish in the migrant-sending country, but other more or less organized groups such as refugee groups, ethnic professional groups, or even virtual organizations using the internet (e.g. the Somali Forum and the Tamil Eelam), participate in the transfer of collective remittances. Along with the growing number of HTAs has come greater institutional outreach and collective remittances. One incentive for HTA-based collective remittances is to match HTA moneys with government funding ; another approach is to actively solicit and encourage HTA investments in micro-enterprises and job-generating ventures in developing countries (Lowell & de la Garza, 2000).

Monetary remittances are transferred in formal and informal ways. *Formal remittances* are sent through banks, post offices, exchange houses and money transfer companies (such as Western Union, Thomas Cook and Money Gram). Formal international remittances can be measured through the IMF Balance of Payments Statistic Yearbook. *Informal remittances* are generally transferred through hand-carriage (when going home to visit) or by family, friends or money couriers (4). Besides, some countries have extensive and efficient systems to facilitate informal transfers, e.g. Hawala in Pakistan and Bangladesh; Hundi in India. These systems are generally well-organized, effective and inexpensive, and senders do not need to provide identification (Orozco, 2003).

(4) Athukorola (1993) argues that the usual practice to treat all informal remittances as foreign exchange leakages from the labour exporting country is erroneous because the aggregate figure includes two types of remittances that do not show up in official remittance data:

1. Goods imported by return migrants under duty free allowance facility (or under personal baggage/gift schemes) ;
2. Saving brought home on return in the form of cash (or traveller’s cheques) subject to formal custom’s procedures and subsequently converted into local currency at domestic banks (where they will show up as ‘tourist expenditure’.

The development potential of remittances can be improved by increasing the total flow of remittances, lowering the transfer costs, reducing the risks involved in transfers, and by offering more attractive investment alternatives (Van Doorn, 2001). In addition to monetary remittances' potential for improving economic activities (e.g. long distance labor markets, collective savings strategies, formal and informal credit associations, and transnational enterprises), social remittances may gradually spread to political, cultural and social activities and create transnational communities (Levitt, 2001).

### 3. The (missing) link remittances-local development

The magnitude and trends of this large transfer of money has stimulated a lively debate and a rich amount of case studies on the remittances practices, individual use and collective mobilization of the funds (5). The amount of remittances sent on a monthly or yearly basis depends on several factors, in both the host and sending countries, but the contribution to local development in the migrants' country of origin can be significant.

The impact of remittances on local development is a debated issue (Massey *et al.* 1998, Taylor, 1999 ; Orozco, 2003). While at the national level, the role of remittances is analyzed for their positive contribution to the balance of payments by providing much-needed foreign exchange, the wider developmental effects of remittances are far from clear.

There is a fairly strong consensus in the literature on the use of remittances. Remittances are used for the most part on food and clothing, and health care. But also on housing construction, buying land and cattle, on consumer goods (Martin, 2002) and sometimes on conspicuous purchasing – such as gold and precious stones. Generally, only a small percentage of remittances are invested in productive activities, even though increased housing activities can have significant spillover effects on the local production system. However, despite the small percentage, in absolute terms the money used for productive investments must not be neglected. Guarnizo and Smith (1998) claim that investments by migrants are fundamental to the vitality of the receiving countries. Other analysts continue to argue that remittance income received is rarely used for 'productive purposes' but is rather spent on debt maintenance, everyday expenses, consumer durables, housing, retirement, health care and education (Newland, 2003), creating inflationary process on the local economy.

Investing remittances in productive activities does not occur overnight, but better housing, education and the purchase of land can however produce an impact on the households' local conditions by substantially increase its social and human capital. In fact, as shown by Sørensen 'productive' / 'conspicuous consumption' dichotomy is a dead end since investments in health care and in education improve productive capacity in the long run (Sørensen *et al.*, 2003).

(5) To have an updated overview of the bibliography existing on remittances see Diana Sainz, 2003.

Other studies highlight that unlike development aid, remittances are spent directly by the families of migrants and in this respect is a very efficient way to raise the income of people in poor countries (O'Neil, 2003).

According to Susan Martin, "until relatively recently, researchers, economists, and development agencies tended to dismiss the importance of remittances or emphasized only their negative aspects. They often argued that money sent back by foreign workers was spent largely on consumer items, pointing out that it seldom was invested in productive activities that would grow the economies of the developing countries. They also feared that those receiving remittances would become more dependent upon them, reducing incentives to invest in their own income-generating activities" (Martin, 2001).

The traditional view sees the excessive consumerism practiced by households receiving remittances as inequities and dependency creating and not encouraging productive investments. Also, as the foreign workers settled in their new communities, wives and children would be left behind, with the all-important remittances no longer contributing to their livelihood. However, attempts of the government to lead the use of the remittances for productive activities have often had little result (Martin, 2001).

Guerin-Guengant (1996) pointed out that the increase in the purchasing power of the household with a migrant risks to : a) increase the consumption of imported goods ; b) push towards the abandonment of local activities that are judged insufficiently remunerative, c) induce consumption to achieve higher social prestige and d) idealize the migration as the only possibility to escape local poverty.

Similarly, Castels and Kosack (1973) and Paine (1974) argued that emigration will create a petty elite whose standard of living will adversely affect the already meager resource supply of the poorer segment of the population. Others showed that returned migrants often choose to settle in a different area from that of origin, especially in urban metropolitan areas, increasing rural-urban disparities (Lazaar, 1996).

### **Remittances and productive investments**

According to Taylor, research on migrant remittances and their impacts in migrant-sending (remittance-receiving) households and regions is abundant (for a review, see Massey, *et al.*, 1998, or Taylor, 1999). In particular, the New Economics of Labour Migration (Taylor, 1999 and 2000) considers the migrants as financial intermediaries, substituting for the missing rural bank or insurance institution : "Once they are established at their destinations, migrants provide the family members at the origin with needed capital and with income insurance, through remittances or simply the promise to remit should the origin household suffer an adverse income shock" (Taylor, 2000).



The focus of remittances for *productive investments* can be found in Pastor and Rogers, 1985, Martin, 1991, Abdel-Fadil, 2003, Lazaar, 1996. The use of remittances for productive investments depends upon the context and on the opportunity for small-scale investments and the social and financial capital needed for a new business. Lack of infrastructures, lack of access to credit and lack of a developed market can play a decisive role in the decision of investing remittances. It is generally expected that the returning migrants will bring impetus to the local communities' investments, transfer of technology and machinery and new enterprises. However, usually it ends up in a service firm with little multiplier effect on employment.

Others have argued that the impact of remittances on local development is also strongly linked to the type of consumption that they stimulate. If remittances increase the import of foreign goods, this will not stimulate the local economy and no multiplier effect will take place. If remittances increase the demand for domestic goods, then domestic production will increase and new job opportunities will be created. A typical example is remittances sent to rural areas where they will be mainly invested in farm production, but also manufacturing and services activities, therefore benefiting the whole economy (Stalker, 2000).

Another striking and only recently acknowledged element is that the use of remittances for schooling, housing and health is not perceived in the literature as productive investments. Instead, it must be regarded as such since –despite these types of remittances' uses do not create direct immediate employment– have a direct effect on the welfare of the household and hence on the workforce productivity. As argued in Taylor (1999) Glytsos (1996) Uner (1988), the increase of liquidity of banks from remittances deposits, liberalization of other resources from consumption, investment in human capital in the form of education and health, purchasing of imported goods underestimate the productive use of remittances.

But there are also negative sides to the story. For example, in his study on the impact of remittances in the oasis economy in Morocco, Haas (1998) found that on the one hand migration has created the possibility to have higher non-agricultural income and so “liberate” the family back home from the absolute dependence on agriculture, but on the other it has also contributed to the abandonment of large agricultural areas. The process of individualization, the disintegration of the power of the traditional community and labor shortages has undermined the willingness to carry out collective soil and water conservation measures. The neglect of agricultural infrastructure and in particular of the vital irrigation system has provoked increasing land degradation. Nevertheless, under some circumstances money has been invested in the development of ‘modern’ irrigated agriculture, although this in turn has provoked sand encroachment and scarcity of ground and surface waters (due to mechanized pumping).



Another perverse effect is the rise in the real estate prices. In the Tunisian area of Msaken, an area of departure for many migrants, the large demand of housing from the migrants living abroad is causing a generalized rise in the prices of housing for the whole village and has resulted in inflation of real estate prices, concentration of land tenure in the hands of families connected to migration, and increased unemployment (Fletcher 1999).

Remittances uses can also take a collective dimension. Collective awareness and actions towards the improvement of the places of origin have been also studied. The example of Hometown Associations (HTA) in Mexico is illustrative (Orozco, 2000). HTA have served as platforms and vehicles for matching fund schemes that pool remittances with government funds and expertise. This has often resulted in significant improvements in local health, education, and sanitation conditions, for both the migrant and non-migrants households alike (Smith 2001). Towns and rural villages that are connected to hometown associations abroad tend to be better off in terms of infrastructure and access to services (Lowell and De La Garza, 2000). In this sense migration can represent an “accelerating factor” when remittances concentrate in a specific geographical area and when they spur the creation of associations of immigrants (Gubert, 2002).

But why investments in productive activities occur and succeed in some communities and not in others depend upon different factors. A main factor is the context of reception. This has important implications for the directions of migrants’ social and economic investments. The general interpretation of the different use of remittances for local development does not consider the fact that the migrant, or the family members back home, do not necessarily have the skills and competences to use the savings in a productive way. Also, the institutional set-up -in the wide meaning of infrastructure, laws, and support programs- might favor or hinder the use of remittances.

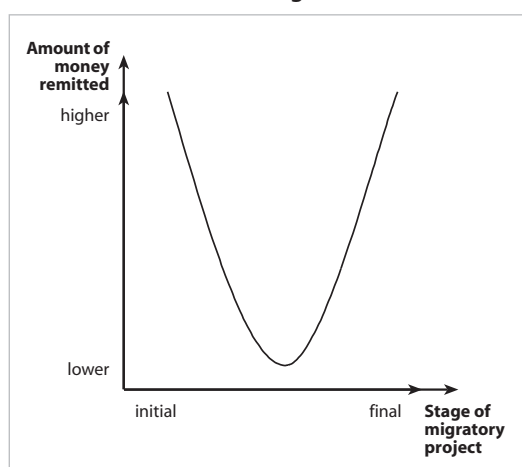
A second important condition to take into account is that the scope of remittances is linked to the composition of migrants’ communities in the host countries and therefore linked to the qualitative aspects of the migratory project and its phases. In some cases, migration has begun to produce second and third generations that often have a dual nationality and that most likely will feel distant or simply not interested in the homeland. The loss of remittances is not due to economic difficulties, but because the increasing inclusion into the society of the host country. In the best case, second and third generations’ migrants are not only linked to the problems of their parents’ village but have a more national awareness of development problems. Yet, their parents, who migrated some thirty years ago still dream about going back and retire in the country of origin. In other cases, “younger” migrant communities living in countries of recent immigration will remit more in an earlier stage of migration to pay back the debt contracted before departure. But the fact that in most cases their intention to settle in the host society is an obliged choice compared to the situation of the guest-

workers of the seventies, in turn may reduce the connection with the home country and hence the remittances flow. The connection between migratory project and amount remitted is central for the development of institutional frameworks enabling productive investments.

In a study by Lahlou (2002) on the evolution of the Moroccan migration, younger migrants, between 15 and 19, and the older, over 70 years old, have remitted money in the last five years. The younger because a stronger feeling of affection to their country and the elderly generally in preparation of a future return. But, the study concludes that also the age classes in between generally remit, therefore confirming that is not the age variable that influences the remittances directly but the stage of the migration project, i.e. the period spent abroad. Another indication of this relationship is provided when looking at the relationship between remittances and marital stage, the engaged couples send money less often than the widows. Also, according to Lahlou remittances are fewer by migrants with higher educational levels, due to higher rate of consumption and saving in the hosting country. Factors such as age of the migrant, family status, age of the family members left behind, educational level of the migrant, and size of the migrant family must therefore taken into account in analyzing the determinant of remittances flows. In graphs 4a and b these hypotheses are represented with two curves in two different contexts: the first of remittances from an old immigration country, such as for example Denmark and the other from a young immigration country, such as for example Spain and Italy.

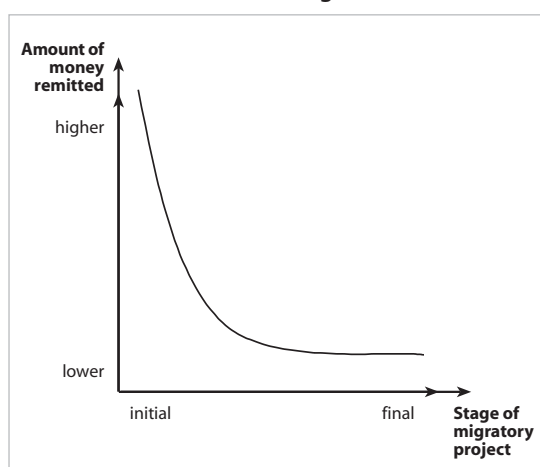
Graph 2a

**Remittances trend flow from  
migrant communities in countries  
of old immigration**



Graph 2b

**Remittances trend flow communities  
from migrant communities countries  
of recent immigration**



The changing patterns of migration that is challenging policy makers in their task to channel workers' remittances for local development is also

confirmed by Mr. El Gourhani, marketing director of the Banque Populaire :

« Les pays d'émigration traditionnelle sont en nette décélération de ces transferts. Alors que les pays récents sont en nette accélération. Ce qui est normale, puisque la première génération qui a encore un attachement avec le pays d'origine et qui réalise des investissements (immobilier, aide à la famille restée au Maroc...). Pour la deuxième et troisième génération, quand on est né en France Ou en Hollande... l'attachement est toujours là mais on pense beaucoup plus que sa vie est dans le pays d'Europe dans lequel on vit que au Maroc. » (Entretien, au siège social de la banque à Casablanca, le 5 novembre 2003.)

Therefore, any analysis of the developmental impact of remittances and of the measures that can be implemented to facilitate the successful utilization of money from abroad needs to consider both the initial conditions under which people go abroad, the conditions in which the receivers of remittances live and the institutional framework, and the socio-economic conditions of the migrants living abroad. To fill-in the (missing) link between "remittances and local development" an increasing attention to these aspects should be paid in the analysis.

#### **4. The case of Morocco**

In 2001, Moroccans resident abroad were estimated at 2.5 million, i.e. almost 10 percent of Morocco's total population. Moroccan migration is nowadays greatly oriented towards Belgium, France, Germany and the Netherlands and more recently towards Italy and Spain. Compare to 15-20 years ago, today Moroccan migration is relatively younger and with a higher percentage of women.

#### **Remittances to Morocco : macro-economic aspects**

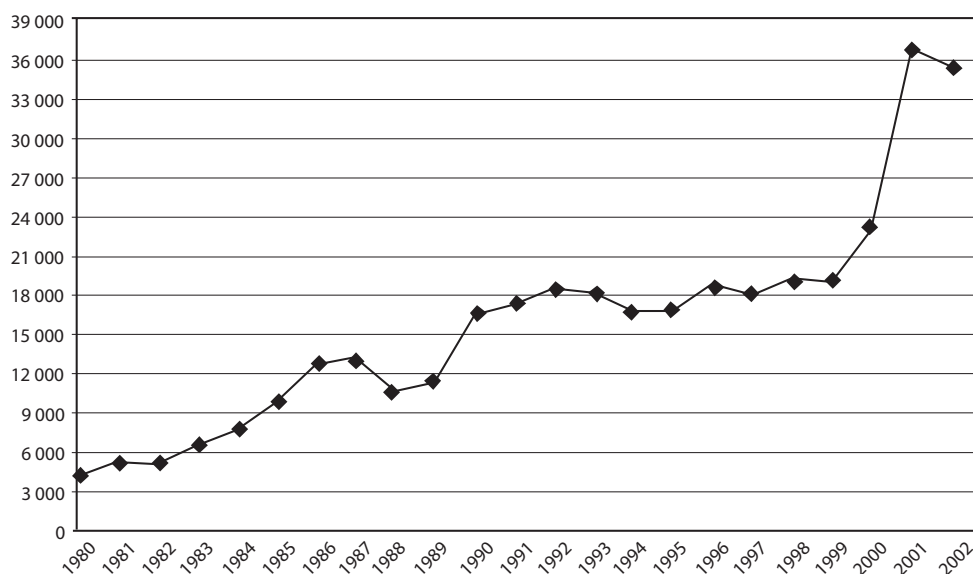
According to the data from the World Bank Finance Report 2003, Morocco is the fourth largest recipient of workers' remittances, totaling 3.3 billions of dollars in 2001, after India (10 billions) Mexico (9.9 billions) and the Philippines (6.4 billions of USD). In Morocco remittances are as much as 9.7 per cent of GDP.

Therefore, international migration from Morocco and the remittances following from it has important repercussions for Morocco's economy. Remittances role in the balance of payments is higher than phosphate and tourism industries (Ben Ali, 1991).

The impact of remittances on the households' income is not negligible. From a study carried out by Bouchachen (2000), it emerges that migration is a mean to achieve decent income. The contribution from remittances means that only 19 per cent of the population instead of 23.2 per cent is below the poverty line, which means that 1.2 million Moroccans escape poverty thanks to remittances.

In 2001, an increase of 60 % of the amount received in 2000 was reported (Graph 3). Remittances represent a considerable proportion of GDP and contribute to readjusting Morocco's balance of trade deficit ; they also constitute one of the main generators of foreign currencies together with tourism.

Graph 3  
Remittances flow during 1980-2002 in Morocco,  
in million moroccan dirhams



Source : Office de Changes, [http://www.oc.gov.ma/MRE\\_annees.htm](http://www.oc.gov.ma/MRE_annees.htm)

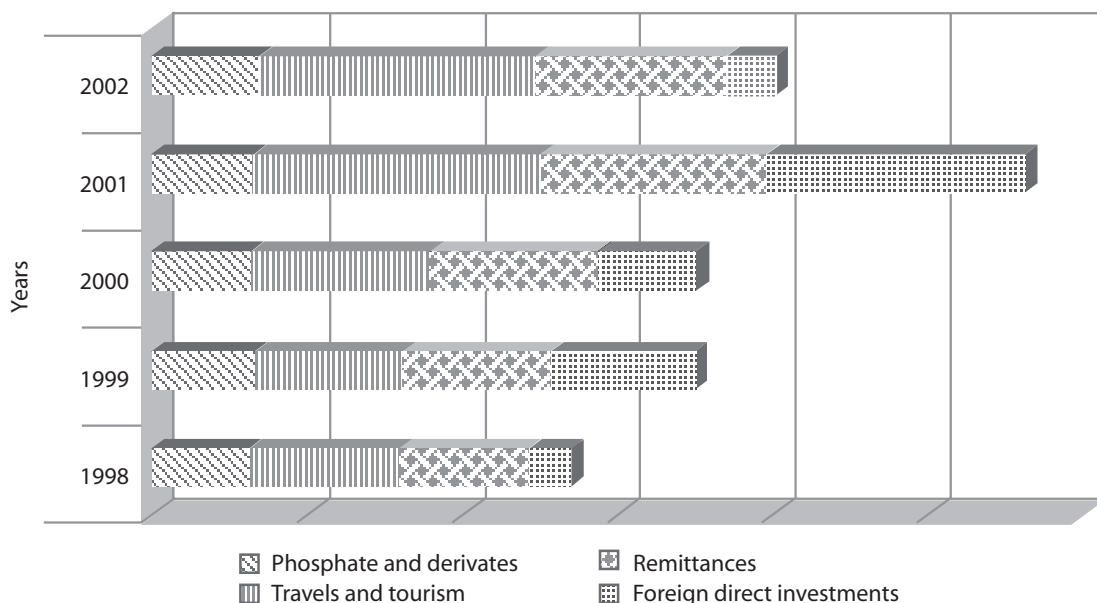
Since the early 1970s, remittances have become increasingly important for the external balance of payment. For Morocco, remittances represent the country's number one source of foreign currency receipts, and represent income both well in excess of the country's receipts from tourism, and consistently above inflows of FDI (graph 4).

Remittances flows are not stable during the year but traditionally the months of July and August, the holiday season for the resident abroad, is the period during which remittances peak. This is also the period during which the hidden but substantial amount of in-kind remittances, in forms of gifts or spare parts for vehicles and other small equipments, flow into the country. According to Fondation Hassan II spokesperson Mr. Ftouh:

*« Il est difficile d'apprécier et de donner une valeur marchande à ce qui est rentré par les immigrés au Maroc, des produits qu'ils introduisent. Ils font entrer parfois des produits usagers. A part les cas où on a des immigrés qui*

*font du commerce à travers la migration. Cela sert en général pour couvrir une partie du voyage [...]. Il est difficile d'estimer les transferts de séjour des immigrés au Maroc. Au Maroc personne ne dit ce qu'il gagne ou ce qu'il dépense. Mais une bonne partie de l'épargne va dans les festivités comme les mariages... Cela demande beaucoup d'argent et de ressources. Par comparaison à leur vie en France, ils consomment beaucoup plus au Maroc. Ca va parfois du double voir au triple de ce qu'ils consomment à l'étranger. »*

Graph 4  
Comparing remittances with other flows in the balance of payments



Source: : Office de Changes.

### Microeconomic aspects of remittances

A study on thirty households in the two provinces of Taroudant and Beni Mellal and ten key informants carried-out during October and November 2003 by a team of local researchers coordinated by the author of this article has collected information on the modality and use of remittances, focusing in particular on their productive utilization. The field-study in Morocco was preceded by a field-study in Denmark on fifty Moroccans households and their remittances practice and transfer modalities. The results of the study in Denmark are not presented in this article, but when necessary they will be used to stress the general behavior of the remitter in relation to investments' opportunities.

From the survey in Morocco, it emerged that the main purpose of sending money back home is to support the family household, other close relatives and/or to build a new house or improve the existing one.

*Fatima, 50 ans : « J'ai 3 garçons et 4 filles. Mohamed, 31 ans est le plus grand. Il est émigré en 2000. Il nous envoie de l'argent régulièrement. C'est grâce à lui qu'on vit mieux aujourd'hui. Le mois de juillet de cette année il est venu pour les vacances. Le mois de septembre dernier il nous a envoyé 6 000 dirhams. Tous les mois il nous envoie un peu d'argent. Par exemple il nous a envoyé 10000 dirhams pour refaire le plafond du salon. On a sculpté le plafond. En général il envoie 2000 dirhams par mois et quand on fait des travaux pour la maison il nous envoie des grosses sommes. La première chose qu'on a faite c'est de faire entrer l'électricité dans la maison car on ne la possédait pas. Ça nous a coûté 4 250 dirhams. On a ajouté un salon avec les sculptures au plafond et on l'a aménagé. Ça nous a coûté en totalité 40 000 dirhams. On a construit un puits pour l'eau potable pour la maison, et l'utilisation quotidienne. Car auparavant on était obligé d'aller chercher l'eau au fleuve. C'était les filles qui s'en occupaient. » (Entretien, Beni Ayat, le 11 novembre 2003.)*

*Lahcen, 53 ans : « Mon fils Jamal est parti en Espagne à 26 ans. Il nous envoie tous les deux à trois mois de l'argent [...] On les utilise pour vivre, pour manger, les dépenses quotidiennes. Aujourd'hui on se nourrit beaucoup mieux qu'avant. On a refait plusieurs choses dans la maison. On a acheté des grosses couvertures. » (Entretien, Beni Ayatt, le 11 novembre 2003.)*

*Mohamed, environ 45 ans : « Mon père est parti en 1968 et ma mère l'a rejoint en 1989 avec 2 enfants. Je suis resté au Maroc car il était trop âgé pour aller avec eux. Ils ont acheté des terres agricoles grâce à leurs économies. Ils ont aussi des terres pour construire une maison qu'ils vont construire à Casablanca dans le quartier de Bernoussi. Ils ont aussi construit une maison à Taliouine. La maison à Casa va servir pour un futur retour pour y vivre. Leur argent économisé va leur servir à construire la maison. Ils ont choisi Casa car ça leur plaît. En plus on a beaucoup de famille à Casa. C'est bien pour les enfants pour passer les vacances. A part les maisons ils n'ont jamais pensé à investir leur argent dans autre chose. Cet argent va aussi leur servir pour un futur retour au Maroc. » (Entretien, Taroudant, le 20 octobre 2003.)*

Remittances flowing through family and/or village networks have played an important part in supporting local economies and infrastructure development in certain areas. However, the emigrants' preference to invest in larger urban centers, such as Casablanca and Agadir, where market opportunities are larger, or because that gives a higher social status, is affecting the local development impact of remittances in the rural marginalized areas, thus increasing the rural-urban development gap.

Despite the rural villages in both provinces traditionally send people abroad, the lack of infrastructures such as electricity, water well and roads have deeply inhibited the productive use of remittances. Purchase of real estate remains the prevailing form of investment. The interviews give only limited evidence of investments in productive sectors.

*Hassan J. : « Ici il n'a pas d'entreprise, ni de commerce. C'est difficile d'avoir une entreprise. C'est déjà difficile de s'occuper de soi et de sa famille. » (Entretien, Douar d'Imgoun à Taliouine, le 22 octobre 2003.)*

As in previous studies (Lazaar, 1996), Moroccan returnees have a strong tendency to establish themselves in the retailing and in particular in the food sector, or in small services such as restaurants and taxi, but also in the agricultural sector. Industry is the least attractive.

*Selon M. B. Mohamed émigré de Belgique : « Les Marocains qui habitent l'étranger choisissent des affaires faciles comme un café, taxi, immeuble. L'immobilier puis location de l'immeuble. Ils n'investissent pas dans les entreprises car il y a plus de risque. Quand tu as un café tu mets un membre de la famille et tu lui dis chaque fin de moi, tu me donnes tant. » (Entretien, Taroudant, le 20 octobre 2003.)*

These types of sectors require little entrepreneurial and managerial capability. When productive investments were made, they were mainly in small-scale industries utilizing simple technologies. This is also linked to the lack of necessary skills to innovate and the ability to perceive the new possibilities offered by the markets. It is therefore wrong to perceive the return migrants into potential entrepreneurs, even though the conditions are created. According to Mr. Ftouh of the Hassan II Foundation:

*« [Le migrant] ne s'intéresse pas à l'investissement sauf quand c'est pour dégager une épargne. Mais cela est très mal suivi. Il y a beaucoup de déperdition en matière d'information. Les gens ne s'intéressent pas. Ils ne vont pas au consulat. Les associations jouent un rôle auprès des immigrés pour tenter de répondre à leurs difficultés, mais cela plus en Europe qu'au Maroc. On a beaucoup d'informations sur internet, mais de migrants y accèdent. Ceux que ça intéresse, prennent contact avec plusieurs sources. La deuxième génération est beaucoup plus active; Elle fait des comparaisons et des études préalables. Mais l'autofinancement reste dominant. Ce qui ne permet pas de se mettre en contact direct avec les banques. D'où souvent des risques d'échec. Mais la deuxième génération arrive à maîtriser ces risques. » (Entretien, Rabat, 29 octobre 2003.)*

However, success stories are not lacking. From the interview with Mr. Makhoulouk and Mr. Khadi, representatives of Al Amal Bank it emerges that the cultural and educational dimensions of the potential entrepreneur are very important, as well as his/her understanding of the country after many years lived abroad :

*« Il y a les MRE qui ont étudiés à l'étranger et qui veulent monter leur affaire ici. Il y aussi des franchise. Comme par exemple le premier Mac Donald qui s'est installé au Maroc, c'est une franchise d'une MRE américain qui a installé son Mac Do à Ain Diab à Casa. Il a fait appel à notre banque. Cela a très bien marché pour lui. Aujourd'hui il est très riche [...] Il le MRE qui est complètement déconnecté du Maroc. On doit tout lui expliquer, ce qui marche au Maroc. Il y a la notion de mentalité. A force de vivre en Europe, ils oublient les mentalités du pays. Il faut leur expliquer la réalité du Maroc. On a toutes*



*sortes de MRE qui vient nous voir. On a les marocains qui ont fait des études en France et reviennent s'installer au Maroc et investir dans un projet. Ceux sont des gens instruits qui viennent un projet bien étudié donc là il n'y a pas de problèmes. Il y a ceux qui viennent de l'étranger, qui viennent monter un commerce ici, ils s'associent avec d'autres personnes. La première génération est beaucoup plus rare. Ils ont plus intéressé par des prêt immobiliers pour construire une maison. Et comme nous on fait pas ça, ils s'adressent à d'autres banques. » (Entretien, Casablanca novembre 5, 2003.)*

Taking into account that the majority of migrants are unskilled with low levels of education, it is difficult to expect that investments are made in sectors in which technical and managerial knowledge is required. Yet, although the migrant may have the necessary knowledge, the success of the enterprise depends upon many other factors. According to El Mouden Mohamed, secrétaire général de la chambre de commerce d'Agadir, président de la commune d'Amalou à Taroudant:

*« En général ce sont les immigrés qui ont fait des études en France qui viennent se renseigner à la chambre. il y a un immigré qui a tenté de créer une usine de margarine mais ça n'a pas marché, car il y a défaillance dans les services commerciaux. Il y a un autre marocain suisse qui a essayé une affaire de pêche maritime mais ça n'a pas marché non plus. » (Entretien, Taroudant, le 20 octobre 2003.)*

The migrants interviewed in Denmark confirmed the existence of bottlenecks in the institutional frameworks in Morocco that should promote industrial investments. They stressed that lack of investments in productive activities is often related to the lack of information about investment opportunities and to the insecurity produced by the economic and political situation in Morocco. They also added that people find it difficult and unattractive to make investments in Morocco because of a slow bureaucratic system and widespread corruption. This may confirm the general view that there is a large amount of money that remains largely unutilized for productive purposes.

However, individual and collective initiatives have not lacked in the provinces studied. For example, in 1987 following the downsizing of the aluminum factory of Argentièrre la Bessée, a Moroccan guest worker established the French association "*Retour et Développement*" with the aim to help the reinsertion of those guest workers that wanted to return in their villages of origin. One year after, the association changed name and became "*Migration & Développement*" to enlarge its objectives and scope, but also to avoid the stigma that the word 'return' produced in those time. The idea was to channel the competences and money of the Moroccan migrants in France in different development projects such as roads constructions, electrification, mills, dams, which were completely lacking in the aluminum factory workers' villages of origin (6). The mechanism used was to pull together the money of the migrant, plus the money of the village

(6) The article 2 of the M&D statute says : [...] "it has the scope to group in France and outside France all the physical or moral persons interested in the organisation or to the participation in development activities in the areas of migration, enabling, among other objectives, the elimination of migration and valorise the dynamics of immigration as a development factor between the two shores of the Mediterranean".

households, plus the labor of the people in the village and the donations of equipment and material of any sort. This has led to a dramatic improvement of the infrastructures in the province and a better awareness of the problems within the local administration.

Currently, the organization has begun to use the money to spur productive activities such as women cooperatives of saffron, handicrafts producers, sustainable tourism, and huile d'argan and milk production. The success of these activities has produced positive externalities in the local government which have started to support more extensively the development of this region. Today, "Migration & Développement" is considered as one of the good practices in grassroots development work with a transnational dimension, and with a participatory approach that sees the involvement and creation of local village associations and other forms of solidarity through remittances.

In the same region, other minor initiatives have not lacked. The Lycée of Agadir has been partly financed by the remittances of migrants from the region. Also, in the outskirt of Taroudant, a wealthy migrant that accumulated large capitals in Belgium by selling Maghreb food has financed the construction of the dormitory for three hundreds pupils. This has enabled students from remote rural villages to attend school.

In these cases the general weakness of the institutional framework and markets has been overtaken with a collective mobilization based on communitarian solidarity. In the case of the individual entrepreneur besides the weakness of the investment milieu there are other social, cultural and psychological factors that hinder the mobilization of capital and favor the vicious circle of deflection of remittances into non-productive aims. Addressing these problems represent an important challenge.

### **Institutional framework for channeling workers' remittances**

The growing migration of unskilled and skilled people from Morocco has stimulated the government to take action by promoting different political initiatives. In 1990, a Ministry for Moroccans Resident Abroad dealing with the affairs of the Moroccan communities abroad was established. The newly created ministry had the role to promote social and cultural and education program for the resident abroad, to safeguard their interests, to understand the migration trajectories, and to participate in the international and regional conferences dealing with the issue of Moroccans abroad, and to provide the instruments for the reinsertion of the migrants upon their return. More recently and following these developments King Mohammed VI announced the establishment of a global, coherent and integrated new policy to be responsive to Morocco's migrant community. This policy favors the emergence of new dynamic migrant elites in politics, science, technology, culture and sports. At the same time, new mechanisms directed towards strengthening the developmental impact of migrant remittances in terms of productive investments were established.

At present, two public foundations are involved in migration management issues, the Hassan II Foundation and the Mohammed V Foundation. The former is specialized in providing economic advice to resident abroad willing to invest in the home country, but also supporting cultural activities and legal aid; the latter is particularly specialized with the summer return of Moroccan migrants (*operations de transit*). Nonetheless, despite the apparent dualism, the Hassan II Foundation plays a major role.

The *Fondation Hassan II pour les Marocains résident à l'étranger* was established in the early 1990s, its main mission being to promote and safeguard the Moroccan community abroad, to promote cultural activities for residents abroad upon their return for holidays, to provide financial assistance to the poor residents abroad. This has created a dualism, considering also that its orientation was set by the government and that its director was the Ministry of Moroccans Resident Abroad, and housed in the same building. Therefore, it did not come as a surprise that the demise of the ministry had important repercussions on the Foundation as well. The new structure of the Foundation, introduced in 1997, offers support to education, cultural exchange, sports, protection to the community abroad and legal assistance and economic promotion for those that want to return and establish a business. A guide for promoting investment in several sectors was published and also a guide for understanding custom procedures and regime in different situations. More recently, the Foundation developed in an instrument to promote the Arabic language, culture and religious education within the communities living abroad. In addition, the Hassan II Foundation plans to work towards enhancing the cultural influence of Morocco in host countries with the specific objective of favoring the emergence of partnerships between migrant associations and host communities. In partnership with the International Organization for Migration, the Hassan II Foundation has created a project entitled 'Observatory on the Moroccan Community Living Abroad', with the objective to strengthen Morocco's capacity to document migration trends and to establish an integrated research system to collect and disseminate information on Moroccans abroad (IOM, 2003, p. 225).

The changing patterns and scale of migration have also found a positive response in the private financial sector and new instruments for the migrants leaving abroad have been developed. At the present there are two main banks dealing with migration and remittances: the *Banque Populaire* and the *Bank Al Amal*.

The first one has been the main reference for residents abroad since 1974. Today, it has still about 60 per cent of the accounts of residents abroad. Its decrease in the market share can be explained for before it was a monopoly. The attention of the Bank to resident abroad is revealed by the low commission for the money transfer (about half of that charged by private money transfer companies like Western Union or Money Gram) and access

to normal bank credit with favorable interest rates. Also, Banque Populaire account holders have an insurance that in case of death provides the repatriation of the body in Morocco.

The second one is an investment bank born in 1989, following the demand by residents abroad to have an Islamic investment bank supporting their entrepreneurial initiatives. It is specialized in financing investments and it does not transfer money and does not open bank accounts. Its main function is to encourage migrants to transfer their money to Morocco in order to invest. The Bank has preferential interest rates and does not require collateral for the share (40 per cent) the bank provides.

Money transfer agencies, such as Money Gram and Western Union exist in Morocco and often have a desk in other local banks. However, financial services strictly related to the use of remittances for social security schemes or productive investments are lacking. Until 1985, a premium was given to support money transfer to Morocco, but it was suspended in 1986.

## **5. Conclusions, policy implications and future directions in research**

In the Mediterranean countries the macroeconomics importance of remittances for both the balance of payment and the foreign currency reserves (Escribano, 2002), but also the dependency that they create is noticeable (Ferganyi, 2001). Keeping this flow alive is therefore a necessary condition for long term economic stability but it is not sufficient to guarantee a use of remittances for developing the local production systems. In actual fact, this depends upon several factors.

This study has shown that there is a large amount of money yet unutilized and migrants' household investment preferences remain within the housing sector. This can be explained by both a psychological factor, i.e. the risk of loosing the savings of an entire life in a bad enterprise, and an economic and institutional factor, i.e. the lack of the market opportunities, lack of infrastructures, and limited interest of the local development institutions. Yet, the utilization of remittances for education, improvement of living standards and health need to be considered as an important tool to increase households' labor productivity.

Also, the study has shown that despite the limits that case-study analysis present in making generalization some important conclusions can be drawn on the microeconomics impact that remittances have on local development. The analysis of the patterns of utilization of remittances in two marginalized rural areas in which remittances have flown substantially for the last thirty-five years, and the analysis of the existing institutions concerned with the use of remittances, has helped to identify some areas of intervention to stimulate remittances productive use and accelerating capacity. These areas are also of relevance for the Euro-Mediterranean partnership co-development objectives. However, as long as Maghreb politicians see

migration as a substitute for economic development meso-regional cooperation will be difficult to achieve (Testas, 2001).

On the policy dimension, three types of initiatives, normally based on incitements, corresponding to three levels of intervention can be undertaken in channeling remittances for endogenous local development (Van Doorn, 2001) :

1. The household ;
2. The community ;
3. The economy at large (socially responsible investments or profit-oriented).

Within the first one, the transfers used for education, health, savings or land can have an impact on the access to credit for developing a family business, or to support the development of a business upon the return of the migrant. The role of local financial institutions is central in this regard. Example from the Ecuadorian Bank of Solidarity, working in cooperation with the Caja Madrid, is enlightening of how return of migrant can be supported to promote local development through loans for returning and for starting a business, buying land and a house in their country of origin. However, these incitements are still focusing on the returnees and too little on the migrants' household capabilities. Therefore, at the level of the household micro-enterprises development training schemes and access to credit should be supported to help those family members remained back home.

The second level, the community of origin of the migrant, is easier to reach when a community exports a large number of persons which in turn create associations that join financial resources to develop the local area; usually on project basis (construction of schools, roads, water systems, etc.). A classic example are the Home Town Associations in the Mexican State of Zacatecas in which the government offers complementary support to these social investments, but also the experience reported in the article of the French-Moroccan association "Migration & Développement" is instructive. These projects require support from the local administration to pull more resources, but it is also necessary that there is a positive cultural attitude towards reciprocal solidarity within the same community members. Some villages located at a short distance from those that were involved in the projects by Migration and Développement did not show any interest in creating the village associations, which is the preliminary condition to benefit from the projects.

The third level is less frequent. Remittances are rather used to support the household income than to support nice projects in the country of origin. Some programs to inform migrants on the investment opportunities have been established, such as for example those by the Foundation Hassan II, although the information recorded on the success of these initiatives is quite limited. The second and third generations of Moroccans living abroad might represent the vehicle through which channel these initiatives. Already now,

groups of young Moroccans are engaged in small and medium development and cultural projects.

The study has also shown other important elements for future studies on the link between remittances and local development. As pointed out by Ghosh 2000, Collinson, 1996, Gamburd, 2000, the migrants' competences, the phase of the migratory project, the duration of the stay abroad, and also the reason behind the return itself are factors that must be increasingly taken into account. Thus, the changing patterns of migration destination, the changing constitution of migrant population and the increasing limitation to people's movement represent important factors to be further analyzed. The flow of remittances can drastically change and produce dramatic shocks to the local economy. However, if a reduced flow of remittances depends on an increased return of migrants a positive effect on the local development can be expected, as it occurred in Jordan after the first Gulf War (Amoroso and Gallina, 2002).

In fact, despite the lively debate and the rich literature on the subject, there are no studies on the link between remittance flows and the changing pattern of migration destination and migrants' population needs and aspirations. If a relationship between the migrants' population, stages of migration and the share of income remitted exists, as presented in graph 2a and 2b, then the possibility to analyze and forecast the trends in the flow of remittances in the future becomes feasible for both policy makers of the migrants' countries of origin and transfer agencies alike.

The many issues touched on this study are just a small part of the many important and yet unexplored aspects within the larger research area of migration and local development. The findings presented in this article provided a deeper understanding of the links "remittances-local development" and identified some of the future directions for practitioners and researchers alike to follow. Still, much is to be done and the inclusion in the analysis of variables such as social remittances, transfer of competences and cultural attitude towards communitarian solidarity aiming at local development; together with a better understanding of the implications of the changing patterns of migration for remittances flow are wished.

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