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The Role of Social Protection Programs in Remittance-Centered Development Policy: A Case Study of Morocco

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Abstract

Remittances serve as a financial lifeline for households in emerging economies around the world, affording basic social services such as education and healthcare. Alternatively, remittances from diaspora populations are an opportunity for countries to finance development projects. The case of Morocco illustrates the central role that remittances can play in the development policy of countries with high labor out-migration. Yet using remittances for long-term development requires public social protection programs to substitute for the redirection of these private funds used by individual households.

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Introduction

The question of how to encourage sustainable development in emerging economies is not new. For the past sixty years, the strategies favored by international lending institutions, Western development agencies, and individual states have shifted. Today, it is impossible to ignore the role that labor migration and the flow of remittances play in facilitating economic development. At the household level, remittances serve as a financial lifeline, affording families basic social services including education and healthcare. At the national level, remittances present an opportunity for governments to finance development projects. Collectively, this form of capital creates an alternative to official development assistance and traditional foreign direct investment. Based on this potential, remittances currently play a central role in the development policies of countries with high labor out-migration. Notably, governments are establishing stronger ties with diaspora populations and catalyzing the transfer of larger remittance flows.

The case of Morocco illustrates the two roles that remittances can play within an emerging economy. At a household level, remittances combat poverty and afford basic services. Yet, at a national level, remittances play a central role in Morocco's official development policy. By strengthening ties with its diaspora population and encouraging the investment of remittances within Morocco, the government claims that migrants have economic responsibilities and asserts state control over the use of this inflowing capital.

The assertion of a state claim on the use of these capital transfers ignores the basic social services that take priority within households over long-term investment purposes. In Morocco, the contradiction between the individual and communal uses of remittances undermines the success of the government's official development policy. Due to the voluntary nature of remittances, capital will not be directed towards state-sanctioned investment projects as long as basic needs at the household level are left unmet.

By reconciling two dominant theories within the development literature of the last thirty years, new economic labor migration (NELM) and migration mobilization,[1] this project addresses how remittances can become a successful tool for long-term development in emerging economies with high out-migration. Morocco serves as an illustration of how remittance-centered development policies are complicated when faced with individual priorities for basic social services. Based on the contradiction between the current uses of remittances, I argue that the communal use of remittances for development projects requires that public social protection programs substitute for these private funds, affording universal access to basic social services.

In Chapter One, I examine how development literature, and the role of migration and remittances, has evolved over the past sixty years. Within this time-frame, the development policy of Morocco has also shifted based on global trends and pressures, and remittances have been given a more prominent role. In Chapter Two, I explain how remittance-centered development policy can encourage the use of remittances for communal development projects, without acknowledging the individual social services that remittances afford. I analyze the benefits and weaknesses of household dependence on these private funds. Lastly, in Chapter Three, I introduce how the implementation of public social programs would allow for states to reap the economic benefits of remittances while mitigating the economic risk that such inflows of capital bring to domestic populations. Within Morocco, I analyze how new public programs could allow for households to invest remittances instead of to privately finance basic services, a promising new chapter of the country's remittance-centered development strategy.

[1] Migration mobilization is a term that I created to summarize post-2000 development literature commonly referred to as "remittance euphoria."

Methodology & Limitations

To analyze the role of social protection programs in remittance-centered development policy, this project utilizes an extensive research model to show global commonalities and an intensive research model to examine specific domestic policies. I provide extensive information about the general association between remittances and development policy from a global perspective, which can be applied to the cases of emerging economies with high labor out-migration around the world. Additionally, I conduct intensive research into Morocco's individual experience with remittances and development in order to introduce local complexities and illustrate the direct relationship between remittance flows, household needs, and the formation of national development policy.

The majority of the research on Morocco was conducted during April of 2009 in Rabat, Morocco. As the capital of the country, this location provided the best opportunity to research the official government policy regarding remittances. The data was obtained primarily through interviews with professionals working at government agencies, non-governmental agencies, international organizations, and foreign aid agencies headquartered in Rabat.

Unfortunately, the one month time span given to conduct field research in Morocco limited the degree of access that I had to international and national development agencies within Morocco. Since many of my requests for interviews were not answered, a longer period of field research would have allowed for the exploration of alternative methods of gaining information. Furthermore, my reliance on translators due to my basic knowledge of French and Darija (Moroccan Arabic) served as a limitation during the research process.

Finally, the largest limitation of the intensive field research is the timing in relation to the global economic crisis of 2008. By the spring of 2009, all of the interviewees acknowledged that the financial crisis would challenge Morocco’s current remittance-centered development policy. However, it was too early to assess the full consequences of the financial crisis and the impact that it could have on official government policies. Based on these limitations, future field research is necessary.

Chapter One

Part One:
The Evolution of Development Literature Over Sixty Years

Review of Literature

The economist John Kenneth Galbraith described migration as "the oldest action against poverty." Populations have always moved across borders, landmasses, and bodies of water to capitalize upon better economic conditions. At the same time, capital has also moved across borders in order to facilitate the economic development of a neighboring region. On an individual level, capital in the form of small-scale money transfers sent home by migrants working abroad, known as remittances, is also an old practice of capital flow used to alleviate poverty. However, while the phenomena of migration, capital flows for development, and remittances are by no means unique to the twentieth century, their relationship has been heavily focused upon and debated in academia and policy circles in the last sixty years in particular. In this sixty-year time frame, there are four main bodies of literature regarding the relationship between remittances and development within the frameworks of migration and development theory. These are the *developmentalist and neoclassical* views of the 1950s and 1960s, the *historical-structuralist* view of the 1970s, the *new economics of labor migration* view of the 1980s and 1990s, and most recently, the *migration mobilization* view that has emerged predominantly since 2000. In this chapter, I will address each body of literature and the historical conditions that influenced them in the order they appeared.

Developmentalist and Neoclassical Views

The developmentalist and neoclassical views of the 1950s and 1960s were primarily characterized by a widespread optimism in favor of large-scale development initiatives. This tone was set by Secretary of State George Marshall in a speech made on June 4, 1947 in which he stated the United States of America's commitment to aid in the economic development of countries following the destruction of World War II. In the speech, Marshall stated that, "It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos…Any assistance that this Government may render in the future should provide a cure rather than a mere palliative." Following the post-World War II economic recovery plan that came to be known as the Marshall Plan, the large scale capital transfers from the United States that had primarily targeted Western Europe began to be diverted to less developed regions of the world.

In his inaugural address on January 20, 1949, President Truman expressed support for the large-scale capital transfers characterized in the Marshall Plan, but emphasized the need for a shift in international development assistance towards developing countries in what is now know as the Point Four Program. Stating that, "For the first time in history, humanity possesses the knowledge and the skill to relieve the suffering of [people in poverty]", Truman introduced an extensive economic plan for international development. This sense of responsibility for the financing of international development was not solely felt in the United States. In the article "Future Foreign Financing" (1949), German economist Horst Mendershausen asserted that the next logical step following the post-World War II economic recovery of Europe would be to finance the growth of the developing world. Mendershausen called for a "joint effort of the Western nations to develop the economies of the underdeveloped countries" (267).

Shortly after, a growing network for large-scale capital flows from the United States, Canada, and Western Europe, into Africa, Asia, and Latin America formed in order to facilitate development and fulfill Cold War foreign policy objectives. Within this development framework, it was widely accepted that the economic development and modernization of developing countries would be successful through two major initiatives: large-scale public and private capital transfers and large-scale labor migration.

Development through large-scale public capital was stressed in development literature of the 1950s and 1960s and seen within the agendas of international organizations at the time. In January 1963, Nicholas Kaldor wrote that, "The advanced countries with high incomes have an obligation to assist in the process [of financing development programs] by providing aid, and this obligation has been amply recognized – if not adequately implemented – in recent years." Furthermore, in 1966 the draft Article 1 of the statue for the United Nations Development Program (UNDP) stated that, "the purpose of the UNDP shall be…to organize universal international co-operation and to assist the developing countries in their effort to accelerate their economic and social development by providing systematic and sustained assistance geared to their national development plans and objectives" (Das 1986, 231). This 'public revenue' and 'sustained assistance' came in the form of grants and loans known as official development assistance.

Large-scale private capital flows, in the form of foreign direct investment, were also encouraged as a means of international development. The Eisenhower Administration in particular, beginning in 1953, heavily emphasized the potential that private capital could have in development. Soon after, it had become a "widely accepted premise of current American foreign economic policy that principal reliance should be placed upon private investment as the main external source of long-term capital for economic development of underdeveloped areas" (Goodman 1957, 263).

As both public and private large-scale capital transfers became more prevalent, development literature began to critique the lack of monitoring mechanisms that accompanied the distribution of official development assistance in order to determine the success of initiatives and encourage better practices. In 1966, David E. Bell, a former Administrator for the United States Agency for International Development, wrote that, "We still have much to do to adapt our arrangements for administering foreign aid to the fact that a successful aid program must be a process of partnership…It is my impression that the organizations which carry out aid programs do not have a distinguished record of building into those programs strong elements of research and evaluation…[F]oreign assistance is a relatively new activity and plainly we have an enormous amount to learn about how to conduct it effectively." While Bell's views acknowledge development policy as adaptable to emerging lessons, he still strongly preferences the use of large scale capital for administering development.

The second major development initiative adopted in the 1950s and 1960s was large-scale labor migration. In 1899, John Stuart Mill wrote that, "It is hardly possible to overrate the value…of placing human beings in contact with persons dissimilar to themselves, and with modes of thought and action unlike those with which they are familiar…Such communication has always been, and is peculiarly in the present age, one of the primary sources of progress" (Ellerman 2005, 618). The labor migration policies of the 1950s and 1960s mirror Mill's point of view. In theory, the temporary migration of laborers from developing countries to the labor markets of developed countries would provide workers with skills that could be applied to the economic development of their home country upon returning. Versions of this type of program were adopted in West Germany and the United States, where guest worker programs were created to encourage temporary labor from Turkey and Mexico, respectively, in order to fill unskilled labor shortages and provide cheap labor. In developing countries, governments began to actively encourage emigration in order for their citizens to gain industrial skills and acquire capital. Although there were debates surrounding the consequences of large-scale labor migration, the positive impact migration could have on development was widely expressed. In the article "The International Flow of Human Capital" (1966), Grubel and Scott stated "benefits to the native countries of the emigrants may be sizeable…A good case can therefore be made for a continuation of present policies and the free movement of human capital throughout the world" (274). In "The Economic Desirability of Migration" (1967), after investigating the advantages and disadvantages of labor migration, Stark concludes that as long as migration is "planned in volume and in quality, it may have the favourable effect of being an efficient factor of structural adjustment in both countries" (22).

While the development literature of this time stressed the flow of large-scale capital across borders and encouraged an increase in migration, remittances were largely ignored. In the neoclassical migration theory dominant during the 1950s and 1960s, the free movement of labor leads to wage equalization in the origin and destination countries. When this happens, migration theoretically will cease. Therefore, in this framework, the role of migration in development came from skills gained from guest worker programs and wage equalization across developed and developing countries. Remittances – small-scale capital transfers – did not factor into the optimistic and large-scale focus of the development view at this time.

Historical Structuralists

A backlash against migration and large-scale development aid appeared in the development literature of the 1970s. Known as historical-structuralists, development theorists identified historical and structural realities that created conditions of inequality and dependence between developed and developing states. These theorists argued that labor migration and large-scale capital created a cycle of dependency for developing countries. In the 1970 article "Transferring Wealth from Underdeveloped to Developed Countries via Direct Foreign Investment," Nisbet described the attitude surrounding development at that time, stating "The decade of the 60's brought renewed optimism for improved rates of growth in the underdeveloped countries…As the decade draws to a close, the experience of the underdeveloped countries has been, on the whole, disappointing" (93). While optimism characterized the development literature of the 1950s and 1960s, the rate of economic growth during these decades did not live up to predictions. Although Western policy makers aimed for a constant yearly economic growth rate of five percent in underdeveloped countries, the rate of increase continued to drop.[2] Furthermore, large-scale capital flows from developed countries – particularly the United States, the United Kingdom, and France – plateaued,[3] leading to allegations of 'donor fatigue' and critiques about the overall stability of this form of capital (Das 1986, 93).

However, while declining rates of official development assistance called into question how reliable capital from developed countries was, the efficacy of large-scale capital flows and large-scale labor migration to facilitate development was also critiqued. In 1976, Leonard Dudley and Claude Monmarquette published a study in the *American Economic Review* that

[2] Between 1950-1954, the rate of increase in the GNP of underdevelopment countries was 5 percent. In the period of 1955-1960, the rate was 4.5 percent. In the period of 1960-1984, the rate was 4 percent (Woods 1966)

[3] Commitments of economic assistance from the United States represented 0.54 percent of GNP between 1956-60, 0.76 percent of GNP in 1962, and 0.60 percent of GNP in 1965 (Kauffman 1967)

examined the elasticity of aid impact. They wrote, “Despite the attention that has been paid to foreign aid in recent years, there has been very little empirical research to explain actual transfers of public funds between donors and recipients… there appear to be strongly decreasing returns to a donor in converting its foreign aid into impact on a given recipient country” (132).

While this notes a lack of impact from capital flows, other critiques of official development assistance and foreign direct investment claimed that there were more negative impacts. Noting that in the period from 1950 to 1963 American corporations made $12 billion in profits from foreign investments, Baran and Sweezy (1968) asserted that “foreign investment far from being an outlet for domestic generated surplus, is a most efficient device for transferring surplus generated abroad to the investing country” (107-108). In the article “Economic Exploitation of the Less Developed Countries” (1973), McAleese explored the negative effects of official development assistance and foreign direct investment, including providing support to repressive governments, establishing spheres of economic influence, increasing debt, and creating a long-term dependency on capital flows (144). McAleese concludes that critiques “have performed a valuable task in showing that foreign aid is not as generous as it may appear [and] that foreign investment involves serious economic costs as well as benefits” (152).

The large-scale labor migration policies of the previous decades also came under attack by academics and policy-makers adopting a new historical-structuralist view of development. They argued that migration caused “brain drain,” by providing “the best and the brightest with an exit option and that their talents were therefore considerably less available, if not unavailable, to any domestic developmental efforts” (Ellerman 2005, 620). Other consequences of migration included the breakdown of stability within traditional communities and the discouragement of autonomous economic growth within developing countries. Furthermore, while the neoclassical migration theory that dominated the 1950s and 1960s predicted wage equalization would stop labor migration, this did not prove true in practice. According to Harris and Todaro (1970), "despite the existence of positive marginal products in agriculture and significant levels of urban unemployment [within the developing world], rural-urban labor migration not only continues to exist, but indeed, appears to be accelerating" (126).

While these articles showed a growing trend in development literature of examining the limitations of large-scale capital and labor flows, the 1973 oil crisis strongly shifted development policy away from previous views. Due to the expansion of international banking organizations during the 1950s and 1960s, developing countries hit hard by the sharp rise in oil prices were able to borrow heavily in order to finance deficits. For example, while the outstanding debt of all Latin American countries in 1970 totaled $29 billion, but 1978 total debt jumped to $159 billion (Federal Deposit Insurance Corporation 1997, 193). This increase in debt amassed by developing countries due to the oil crisis exemplified how large-scale capital could create dependency and stunt growth.

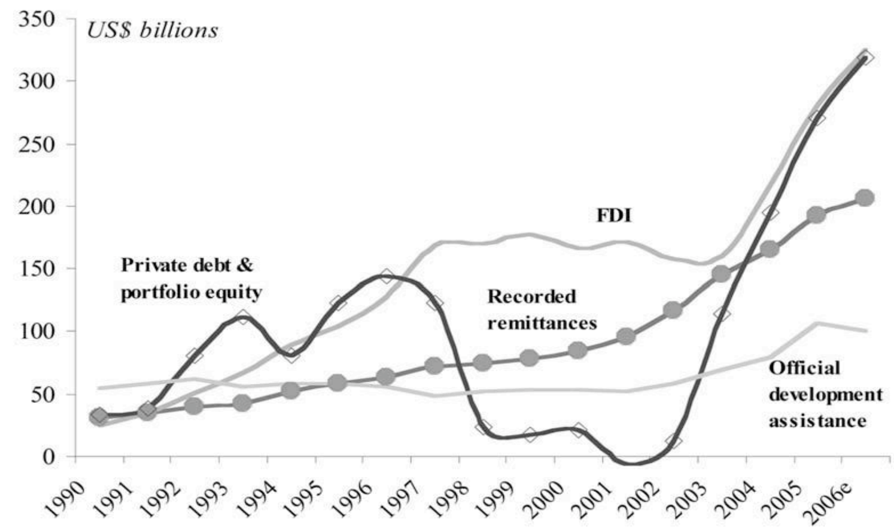
The emphasis on migration to facilitate development also decreased following the oil crisis. Labor shortages in industrialized countries had encouraged liberal immigration policies, recruiting of unskilled labor, and migration-centered development policies. However, when unemployment rose in Europe in 1974 following the oil crisis, hundreds of thousands of guest workers lost their jobs. Labor recruitment was halted, immigration laws were tightened, and incentives were offered to migrant workers and their families to return to their country of origin (Penninx 1986, 952). Suddenly thousands of families that had previously received remittances from family members working abroad lost a significant source of income. Students of the historical-structuralist view pointed out that pro-migration policies had caused household remittance dependency (De Haas 2007, 5).

New Economic Labor Migration

In response to the optimistic developmentalist and neoclassical theories and the pessimistic historical structuralist theory, the new economic labor migration theory emerged in the 1980s and 1990s to address the complex relationship between development and migration (Stark 1991). Instead of focusing on whether migration and remittances had net positive or negative impacts on development, the new economic labor migration theory asked why migration had contributed positively to the development of some countries and negatively, or not at all, to the development of others. According to Cohen (2001), "Two models (dependency and development) have dominated the debate over the outcomes of migration and remittance use (955)…Shifting from generalizations to local examples does not separate us from concerns of dependency and development; it does, however, move us beyond the limits that come with choosing one or the other view" (963). This shift from absolutes to complexities required more data on remittance levels and more studies on the relationship between remittances, migration, and development in individual communities.

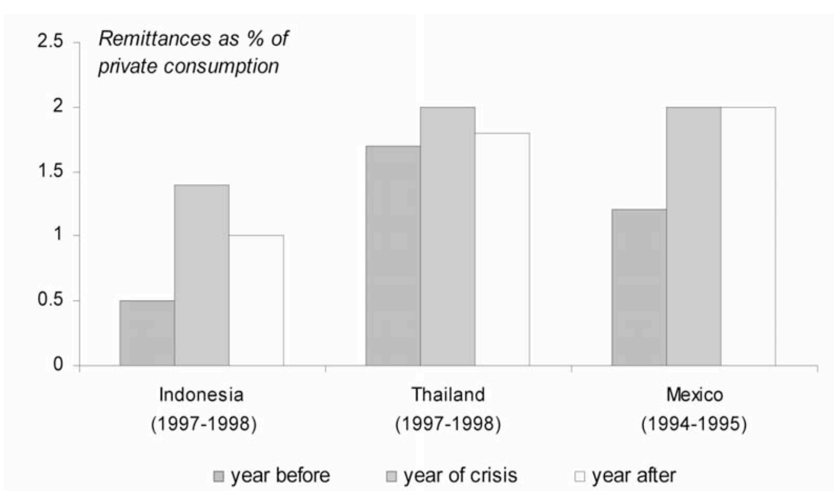
Improved knowledge of remittance levels showed that global remittances flows surpassed official development aid (ODA) and maintained more stable levels than foreign direct investment (FDI) as demonstrated in Figure 1 (Ratha 2007). In terms of financial stability, most forms of capital flows to developing countries tend to rise and fall cyclically. Yet, at a global level, remittances have been less volatile and have even increased in times of economic crisis. Remittance levels following financial crises of the 1990s in Mexico, Indonesia, and Thailand attest to their countercyclical nature, as migrants sent more money home when the recipient economy was in crisis [Figure 2] (Ratha 2007). Similar trends have been noted following natural disasters such as Hurricane Mitch in Central America and Cyclone Nargis in Myanmar.

Figure 1: Remittances and Capital Flows to Developing Countries



Source: Ratha 2007

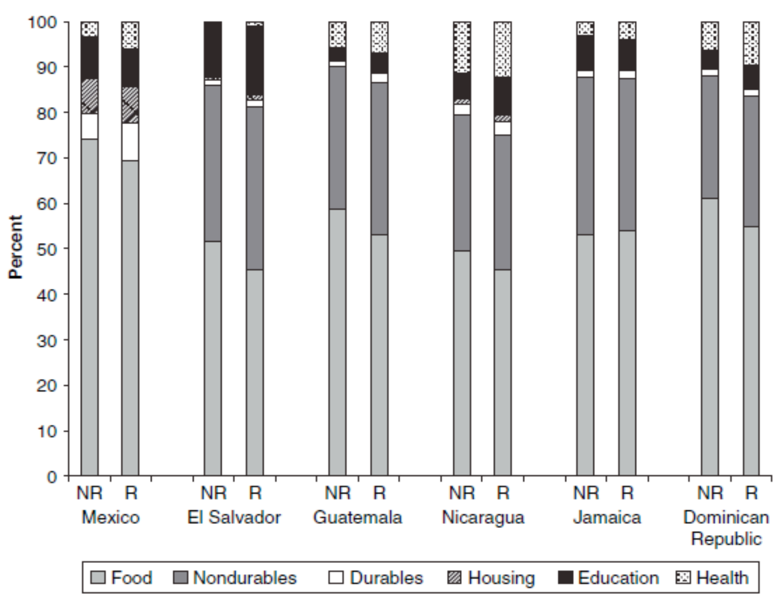
Figure 2: Remittances Rise during Financial Crises



Source: Ratha 2007

The growing number of case studies has helped to reveal the nature of remittances and the possibilities that they hold for development. Studies of large remittance-receiving countries and regions indicate that at a household level, remittances provide increased consumption, better living conditions, and better access to education and health care [Figure 3] (Fajnzylber 2008, 140). In particular, a recent study of remittance receiving households in seven countries in Latin America and the Caribbean showed an overall increase in health expenditures in six of the seven countries and an overall increase in education expenditures in four of seven. Further studies in Guatemala and Nicaragua show that children of remittance receiving households have both a higher weight-for-age and height-for-age than children in households that receive none (Fajnzylber 2008, 156). This is not a regional phenomenon. In Southeast Asia, a 1992 study found that families benefit from remittances in the form of higher consumption, better living conditions, and better access to education and health care (Terry 2005, 361).

Figure 3: Expenditure Patterns by Remittances – Recipient Status—Urban Regions



NR = non-remittance-receiving households   R = remittance-receiving households

Source: Fajnzylber 2008, 140

Since remittances are most commonly used for improvements in education, health, nutrition, and habitat, studies show that remittances can be used to reduce poverty through raising per-capita income in individual households. A study published in 2003 on a panel of 74 countries found that a 10 percent increase in remittances in a country's GDP caused a decrease of 1.6 percent in the population living under the international poverty line (Gallina 2006: 9).

While many studies conducted since the 1990s have shown that remittances reduce poverty, the new economic labor migration theory stresses the heterogeneity of the impact of remittances, across time and space. Unlike the development literature of previous decades, the new economic labor migration theory does not label migration and remittances as inherently beneficially nor detrimental to the economic development of countries. Therefore, development literature of the new economic labor migration theory tends to focus on what policies, programs, and political environments most benefit the relationship between migration and development. According to Hein de Haas, a Senior Research Officer at the International Migration Institute, "If states fail to implement effective political and economic reform, migration and remittances are also unlikely to contribute to nation-wide sustainable development. However, if development in origin countries takes a positive turn, if countries stabilize politically and economic growth starts to take off, then migrants are likely to be among the first to join in and recognize such new opportunities" (De Haas 2007, 25).

Along with pointing out the potential of remittances contributing to developing, the new economic labor migration theory also warns of the risks that remittances can present. Hein de Haas points out that, "Although the positive impacts of remittances (such as mitigating income risks, improving house, education and heath…) tend to be celebrated, they also ironically point to the failure of states to provide basic public services" (De Haas 2007, 27). Since remittances provide households with funds for health, education, and other social services, the stability of remittances can hide the failure of a government to provide such services to its citizens. According to the literature, there is a risk that large flows of remittances will distort a country's growth by misdirecting government policies, masking the need for structural change, and causing a dependency on such forms of funding (Glytsos 2002, 4). Therefore, a distinction is made within this body of development literature between macro-level structural development problems and micro-level household poverty. Migration and remittances may benefit one form of development over the other depending on the policies and programs in place in a certain community or country.

Overall, the new economic labor migration theory does not attempt to generalize the relationship between migration and development. The body of literature that emerged agreed that there is "no consensus on whether remittances have a positive or negative impact" (Jones 1998, 10). Instead, "the relevant question, however, is whether the families of [different] regions are better off with migration and migrant remittances than without them" (9).

Migration Mobilization

According to Coimbatore Krishnarao Prahalad of the Ross School of Business at the University of Michigan, "If we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity will open up" (Terry 2005, 8). This attitude underpins a new phase in development literature that arose after 2000. This phase has been spurred by increases in the rates of remittances flows and international migration. It is estimated that the real value of global remittance levels rose from $31.3 billion in 1990, to $76.8 billion in 2000, to $317 billion in

2009 (De Haas 2007, 1; Ratha, Mohapatra, and Silwal 2009). Furthermore, in 2000 it was estimated that there were 175 million international migrants; by 2005 there were almost 200 million international migrants (New Economics Foundation 2006, 6). While critics of the movement have referred to this phase of development literature as ‘remittance euphoria,’ for the purpose of this project I termed this phase ‘migration mobilization’ in order to allow for a more nuanced analysis.

While studies that imply a stable, counter-cyclical, and poverty reducing nature of remittances may have been interpreted more cautiously under the new economic labor migration theory, remittances have sparked excitement and optimism in the development literature of migration mobilization theorists. According to this theory, remittances can facilitate development and alleviate poverty. Remittance transfers act as a bottom-up strategy of targeting needy populations that rewards hard-work and entrepreneurship. From this point of view, understanding how remittances work is essential in order to design policy that optimizes this form of capital flow.

In order to link remittances more directly to development goals, many economists and development experts have supported the adoption of policies in order to maximize the multiplier effect of remittances. According to Dilip Ratha (2009), a Senior Economist at the World Bank, “If funds were transferred through banks and other financial intermediaries, migrants and their beneficiaries would be encouraged to save and invest. Intermediary banks could also use remittance inflows as collateral to borrow larger sums in international credit markets for local investments. To best leverage these flows for development, it is time to create an international body -- an "International Remittances Institute" -- that would monitor the flows of labor and remittances and oversee policies to make them easier, cheaper, safer, and more productive.”

According to migration mobilization scholars, these types of policies would reduce the transaction costs of remittances, improve access to financial services, and mobilize migrants' investments and savings in the home economy. Migration mobilization literature claims that these flows of capital could have a significant impact on development as long as they are delivered efficiently and used effectively. In order to do this, scholars are encouraging governments to promote direct investment from diaspora populations in the same way that foreign direct investment is currently heavily sought after – through a process known as diaspora direct investment.

A 2009 publication from the United States Agency for International Development argues that diaspora direct investment (DDI) serves as an alternative to foreign direct investment. According to the agency, DDI would rely on a transnational social network of migrants that have ties to their home country and are more willing to take financial risks due to social and cultural incentives. In doing so, migrants would become central to a country's development strategy and previously ignored remittances would be channeled into the investment of development projects. As a means to finance development projects, remittances offer countries with high labor out-migration an alternative to official development assistance and traditional foreign direct investment (Debass and Ardovino 2009).

As first seen in development literature of new economic labor migration in the 1980s, remittances can help reduce poverty at a household level. New economic labor migration theorists point to local cases where remittances have reduced poverty levels by allowing families to afford better nutrition, higher education, and improved healthcare. The migration mobilization literature, which has flourished within the development policies of international lending institutions and Western development agencies since 2000, identifies remittances as a means to finance communal development projects. In this way, remittances are an opportunity to replace traditional forms of large-scale capital, such as official development assistance and foreign direct investment. While both theories acknowledge the important role that remittances can play in facilitating economic development, they each identify a distinct use of these private funds and address development needs at different levels.

The shift in development policy, as seen in the development literature of the last sixty years, can also be identified at a national level. The case of Morocco illustrates how internal and external factors of migration, remittances, and development theory directly impacted national strategies, resulting in a current remittance-centered development policy.

Part Two

Review of Development Policy in Morocco

The ability of one state to represent a global model is complicated by regional and local specificities. Yet, three characteristics of Morocco's experience with development, migration, and remittances over the past sixty years allow for Morocco to be studied as part of a larger phenomenon. First, Morocco has had a steady flow of out-migration over the last sixty years. Second, a large fraction of remittances coming into Morocco arrive through official channels, making it easier to study trends. Third, there is available data on these remittance flows over a long period of time.

The migration of Moroccan subjects to Europe was first institutionalized during the period of French colonization from 1912 to 1956. Following independence in 1956, Moroccans continued to migrate to Europe under programs that closely mirrored the predominant neo-classical development theory in order to provide cheap labor and facilitate economic development. Labor migration was encouraged through labor recruitment agreements signed between Morocco and West Germany (1963), France (1963), Belgium (1964), and the Netherlands (1969) (Migration Information Source). Migration was formally introduced as a tool for economic development of the newly independent state within the 1968-1972 national economic development plan. Within this document, migration was encouraged in order to increase foreign currency reserves to finance development, employ Moroccans who could not be absorbed into the domestic labor market, and develop a group of citizens with business skills (Brand 2006, 61). In fact, this explicit policy led to the emergence of concrete economic benefits for the state. A 1972 survey of migrant laborers in France found that 89 percent of Moroccan migrants regularly sent remittances back home, the highest percentage of any other migrant group surveyed (Collyer 2006, 17). During this same period, the Moroccan government took on a large role in facilitating economic development through providing social services to the population. King Mohammad V introduced free education and medical care to all Moroccan citizens based on an implicit Social Contract that guaranteed the provision of social welfare from the state in return for loyalty to the Monarch.

Similar to the shift in the broader development literature in the mid-1970s, Morocco's development policy and relationship towards migration was altered due to both internal and external factors. The 1973 oil crisis and global recession that followed shrank the European labor market, and protectionist policies such as visa requirements reduced the demand for labor through the Morocco-Europe labor corridors established during the colonial and post-independence periods. Furthermore, the price collapse of phosphate, a main export of Morocco, in 1976 left the Government of Morocco unable to continue to finance the expansive public social programs under the Social Contract.

Although the movement of labor became more restricted following 1973, the reduction of state revenue from phosphate meant that the government relied more heavily on migration as a primary tool for development. In the 1973-1979 national economic development plan, the government quantified the policy of encouraged emigration by setting a goal of 155,000 Moroccans working abroad by the end of the time period (Brand 2006, 62). However, instead of a cyclical labor movement that had characterized migration in past decades, the influx of Moroccans into Europe at this time came predominantly through family reunification programs and undocumented labor (Migration Information Source).

In 1983, following further losses in government revenue due to long-term drought, Morocco's King Hassan II allowed the International Monetary Fund (IMF) to implement structural adjustment programs to address macroeconomic imbalances (Brand 2006, 11). These reforms cut subsidies, reduced public investment, and further diminished the Social Contract. Thus, the reduction of state revenue and the constraints placed on their use by the IMF increased the importance of migration and the resulting remittances.

Based on the increased significance of migration and remittances, the mid-1980s marked a shift in the government of Morocco's relationship with its diaspora population. According to Brand, remittances came to be understood as a "key factor standing between relative solvency and economic crisis," resulting in the need to assert a sovereign claim over the resources. In an attempt to directly court migrants and facilitate the transfer of remittances and domestic investment, new financial and political institutions were created. In 1989, a new development bank, Bank al-'Amal, was established in order to provide loans to Moroccan migrants living abroad in order to encourage the investment (65). That following year, the Ministry of the Moroccan Community Abroad and the Hassan II Foundation for Moroccan Residents Abroad were founded. The Ministry was created in order to negotiate international migration and labor conditions, as well as to develop programs to help returning migrants reintegrate. The Hassan II Foundation was created in order to encourage a link between Morocco and the diaspora population through cultural exchange programs (80).

Over the past sixty years, the government of Morocco's relationship with the diaspora has evolved from "that of a Moroccan abroad as one less unemployed worker at home, to that of a contributor to the national economy, and finally that of a multi-faceted asset with economic, social, and cultural ties to the kingdom" (Brand 2006, 68-69). Over this period, the number of

Moroccans abroad has multiplied. While the national target for 1979 was to have 155,000 Moroccans abroad, by 1991, there were an estimated 1.31 million Moroccans living abroad, in primarily France, Spain, and Italy (United Nations INSTRAW 2009). By 2005, this number had grown to 2.7 million, making up 8.6 percent of the total Moroccan population (Ratha and Xu 2008). Today, this population is estimated to be over 3.3 million (Morocco Newsline 2008).

Both internal and external factors have influenced Morocco's development policy since independence. The evolution of Morocco's development policy reflects the dramatic increase in out-migration and the strengthened ties between the diaspora population. Additionally, the shift in international lending institutions' and Western development agencies' development policies put pressure on the Moroccan government, as seen in the IMF's 1983 structural adjustment programs. Based on these factors, Morocco's national policies have followed a similar path of the overall shift in development literature, arriving at the current remittance-centered development policy. Today the individual and communal uses of remittances with Morocco, as addressed within the literature of new economic labor migration and migration mobilization, challenges the success of this policy.

Chapter Two

Part One
The Individual and Communal Consumption of Remittances

As Chapter One reviews, the role of migration and remittances within development literature and Morocco's national development policy over the past sixty years has increased. Although remittances are a global phenomenon, remittance-centered development policies are not universally applicable due to local specificities of each state that receives remittances. By focusing this study on emerging economies with high out-migration, I acknowledge that remittances provide different opportunities and challenges for governments and households in low-income countries than they do in middle-income, emerging economies.

These middle-income, emerging economies with high out-migration are not regionally specific. Instead, they are geographically located within territory termed the 'labor frontier' by Ronald Skeldon (1997). This widespread region includes:

> *"large parts of central China along an approximately north-northeast to south-southwest axis; it includes the densely populated archipelagic zones of Southeast Asia in Indonesia and the Philippines; it incorporates northeastern Thailand and much of Indochina and Burma, most of eastern and northern India, Bangladesh, and much of Pakistan. In Africa, it includes a zone along the northern coast from Morocco to Egypt and also a group of countries in the south, including Namibia, Botswana, Lesotho and southern Mozambique. The tier includes much of Eastern Europe and Turkey, and western Russia and the Ukraine. Finally, in Latin America, it covers most of Central America, including parts of Mexico, the western parts of the Andean republics and northern and coastal Brazil"* (144-145).

A defining characteristic throughout this labor frontier is the opportunity for middle-income states to capitalize on the inflow of remittances produced by high out-migration.

Claiming Remittances for Communal Development

Throughout the labor frontier, governments of states with high out-migration are strengthening ties with diaspora populations in order to capture remittances, as recommended in the literature of migration mobilization. This strategy takes place within the larger framework of diaspora direct investment (DDI), which uses a diaspora model for economic development. A diaspora model, “integrates past and present citizens into a web of rights and obligations in the extended community defined with the home country at the center” where “dual loyalty is increasingly judged to be acceptable rather than reprehensible” (Bhagwati 2003, 101). New policies that legalize dual citizenship, allow migrants to hold property from abroad, and give migrants the ability to vote in elections via absentee ballot are strategies to strengthen the relationship between the state and the diaspora.

According to a 2008 USAID publication on DDI, migrants can potentially contribute to long-term self-sustaining economic development in the following ways: by contributing skills and knowledge learned abroad once they return; by taking investment risks that foreigners may be unwilling to take; by establishing links between their hometowns and other potential investors; by encouraging the adoption of global market models within the communities they invest in; and by allowing for technologies used in their investments to spill over into the wider community, region, and country (Debass and Ardovino 2009).

The ability to pool the resources of migrants and target remittances towards investment remains a primary challenge within DDI programs. Home-town associations are one mechanism to collect and invest remittances. These associations connect migrants, who collectively contribute remittances, with local residents, who identify and implement investment projects. A second mechanism to facilitate remittance investment is encouraging the flow of capital through official networks, such as national banks. By tracking such transfers, governments gain the ability to better influence and direct their use. After lowering the transaction costs of banks and credit unions, migrants are more likely to utilize such services when sending remittances (Karam 2008).

Although the success of DDI programs to create strong relationships between states and diasporas is based on local specificities, this model is being adopted across different regions. Cases of DDI within Latin America and Southeast Asia exemplify how this broad framework is being tailored to fit local realities. In the next two sections, I will briefly examine DDI programs within these regions.

Remittance-Centered Development in Latin America

Due to a decrease in the viability of previous development strategies and the large increase in capital in the form of remittances, migration has been integrated into development policies in Latin America. Nicola Phillips (2009) touches on this first point, saying "[W]e are witnessing a pronounced contraction of existing and potential development spaces for Latin America and the Caribbean in the global political economy" (232). This development space, as envisioned by Phillips, primarily consisted of low-cost manufacturing. However, due to the elimination of preferential economic bilateral relationships between Latin America and the United States and European Union in favor of multilateral liberalization, this form of development does not look as promising as it once did. The second reason that migration and development policy have become strongly interlinked is due to the growing rate of remittances sent back to Latin America.

With the loss of other forms of development policies and high levels of remittances, it is apparent why migration is being explicitly articulated by governments as a formal strategy for national development. Concrete examples of policies to connect with the diaspora population and encourage remittances are increasing. In 1991, four countries in the region of Latin American allowed dual citizenship. By 2000, ten countries had passed legislation to allow dual citizenship.

In countries such as Mexico and the Dominican Republic, migrants have political rights and access to absentee voting (Phillips 2009, 242). By allowing their citizens to migrate while maintaining strong legal and cultural links, governments hope to encourage strong economic links as well. The majority of countries in this region choose not to impose taxes on incoming remittances in order to maximize their impact on the local economy.

Overall, governments in Latin American are making an effort to implement development policies that promote remittances for community development. In other words, "[G]overnments' articulation of development strategies around remittances have thus far focused on the transformation of these private flows of money into so-called 'collective remittances,' in which public policy can be deployed to divert remittances from constituting individual, family-based income used primarily for private consumption, towards their identification with collective 'developmental' objectives for communities and the wider national economy" (Phillips 2009, 254). If these strategies prove to be effective, migrants could serve as reliable investors. A successful example of the implementation of migration-centered development policies can be seen in Mexico.

Today, approximately 10 million Mexicans work in the United States, sending over $20 billion home every year – almost two percent of Mexico's GDP. An estimated quarter of all Mexican households receive remittances from abroad (Wilson 2009, 589). Within these households, 57 percent of remittances are used for basic needs such as clothing, food, and housing, while the remaining 43 percent are invested in small businesses, property, or saving accounts (Wilson 2009, 588). Based on how entrenched remittances are to the Mexican economy, Wilson concludes that "the Mexican economy is mediated through its emigrant workers" (594).

The Mexican government, aware of the role that remittances do and could continue to play in national development, has paid particular attention to adopting migration and remittance-centered development policies, particularly since the 2000 election of President Vicente Fox. Fox frequently referred to Mexican migrants as ‘heroes,’ creating an image of responsibility for the future of Mexico’s economic development (Sana 2008, 1002). This importance placed on migrants and remittances has continued into the term of President Felipe Calderón that began in 2006. Under the National Development Plan (2007-2012) of Calderón, a series of strategies were proposed to increase remittances under what the government refers to as ‘a new culture of migration.’ These strategies include strengthening economic, social, and cultural ties with the Mexican diaspora community and promoting international juridical mechanisms to encourage legal and safe labor migration (Phillips 2009, 242). Furthermore, the Institute for Mexicans Abroad was created in 2003 and Mexico’s consumer protection agency, PROFECO, has begun to provide information on fees for sending remittances (Hernandez-Coss 2005, 13).

Another characteristic of Mexican development policy is the utilization of hometown associations, where migrants can invest in development projects within the community that they migrated from. An example of such a program is the Two-for-One program created in the state of Zacatecas in 1992. Through this program, the local government would invest two Mexican pesos towards a community development project for every one peso that was invested from a migrant. This became the Three-for-One program in 1999 when the government increased its level of funding. In 2002, based on the success of this program, the Mexican federal government implemented a similar program at a national level (Sana 2008, 1001).

In a 2008 study, Mariano Sana found that the growth in remittances in Mexico since 2000 is attributed to remittance propensity and the average amount remitted (996). This indicates that, along with lower transaction costs and better reporting, policies first adopted by President Fox that aim to incorporate immigrants as well as the growth of migrant hometown associations have been successful. For these reasons, Mexico is a model within Latin American and the Caribbean for how to adopt successful policies that link migration, remittances, and national development.

Remittance-Centered Development in Southeast Asia

The second region I will briefly examine is Southeast Asia. In particular, the Philippines' coherent and comprehensive migration-centered development policy is an example worth noting. Following the Asian economic crisis during the 1990s, the Philippines experienced an increase in both temporary and permanent emigration. With higher out-migration, an increased amount of remittances began to flow back into the country. Due to these flows, the country has become more dependent on remittances as a form of household capital and the government, in turn, has turned its attention towards more efficient and effective policies to continue the flow of remittances (Rodriguez 1996, 427).

In the 1980s, the Philippine government relied on punitive policies to encourage remittances, such as mandatory remittance requirements. However, the government began to shift in the 1990s towards less punitive policies to encourage remittances (Rodriguez, 431). A range of policies to support labor migration and remittance flows were implemented. These were based on the belief that emigration should be temporary, legal, and approved by the Philippines Overseas Employment Administration. Through this official channel of migration, migrants are given healthcare and insurance (Phillips 2009, 240). Migrants are also given ATM cards to connect them to the Philippines through the banking network. Banks have decreased transaction costs to make remittances cheaper to send and have established a network of rural banks to connect migrants and their local communities. The Rural Bankers Association of the Philippines launched RuralNet in 2006, to connect the nearly 1,800 rural banks around the country to the central bank. Through this network, migrants and their families will be able to transfer remittances as well as access other financial services (Asian Development Bank 2006, 59). These policies align migrant labor with national development objectives. Like Mexico, these policies show that the Philippine government is dedicated to capitalizing on the large flow of remittances that enter into the country each year in order to facilitate national development.

These two regional examples of national policies to encourage diaspora direct investment demonstrate an assertion of state control over the use of inflowing remittances for communal development purposes, echoing the theory of the migration mobilization development literature. Unfortunately, this fails to acknowledge the important role that remittances already play in many household budgets. In many cases, these private funds are used to finance individual household needs, which take priority over communal development projects.

Relying on Remittances for Household Consumption

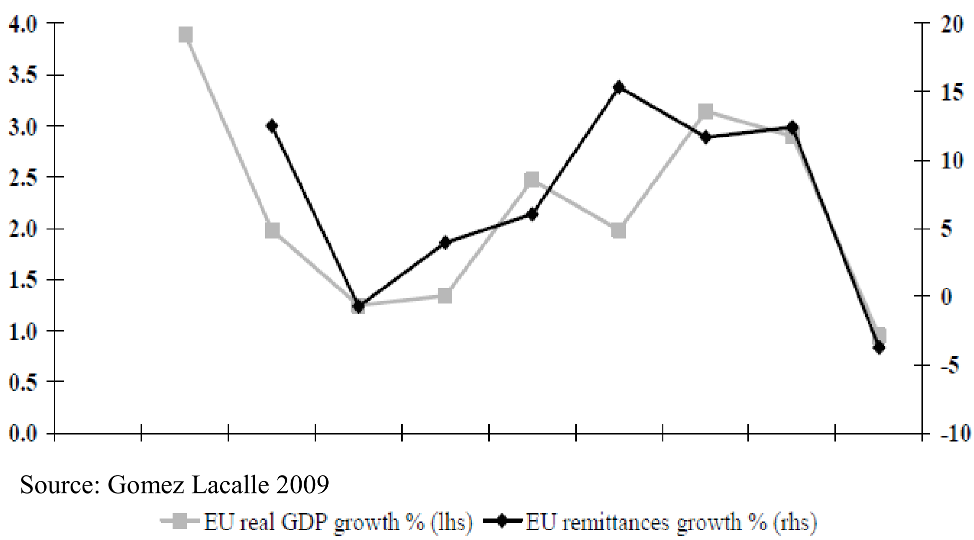
As highlighted in the new economic labor migration literature of the 1980s and 1990s, remittances serve as a financial lifeline for many families in emerging economies, affording basic social services, such as education and healthcare. By providing the financial resources to acquire basic social services, remittances have been shown to improve the livelihood of households. A study published in 2003 on a panel of 74 countries found that a 10 percent increase in remittances as a percentage of a country's GDP leads to a decrease of 1.6 percent in the population living under the international poverty line (Gallina 2008). Further studies suggest that the decrease in poverty levels with a 10 percent increase in remittances as a percentage of a country's GDP could even be as high as 3.5 percent (Ratha 2007).

Apart from providing households with the resources to afford basic services, remittances also serve as insurance against economic risk (Hernandez et al. 2009). Households that receive remittances from family members abroad are invested in different labor markets. By diversifying family income throughout these weakly correlated labor markets, households diversify income risk and reduce vulnerability. This strategy of spreading risk insulates remittance-receiving households from domestic economic shock.

However, the use of remittances at an individual household level does not come without disadvantages. Remittances increase the dependence of individual households on the continued flow of these resources. According to Skeldon (1997), "among all the diversity in [the labor frontier] there is the common theme of dependence upon destination areas. Although there is long-term and virtually permanent migration out of and within parts of the labor frontier, one of the principal characteristics of the population mobility of [the labor frontier] is circulation" (155). In turn, this dependence increases the risk of economic shock in certain circumstances. While remittances may protect households from domestic economic shock, remittances increase household vulnerability to global economic shock. Remittance volatility has a detrimental impact on poverty reduction since income loss from a global economic shock will be absorbed by reductions in household expenditures. In order to cut back on household expenses, it is not unlikely for people to "turn to desperate actions…such as eating less and taking children out of school. Last-resort strategies draw poor households into more destitute conditions by threatening the cognitive and physical development of…children, causing malnutrition and ill-health" (Heemskerk 2004, 953).

Therefore, income reduction often triggers a downward spiral into further poverty. The global economic crisis of 2008 exemplifies how market integration leaves remittance-receiving households vulnerable to economic shocks in the economies of other states. Since the beginning of the global economic crisis of 2008, global remittances decreased 6.1 percent from the level of $338 billion in 2008 to $317 billion in 2009 (Ratha, Mohapatra, and Silwal 2009). Remittance levels are tied to the labor markets of host countries. A 2005 study by van Dalen, Groenewold, and Fokkema identified that employed migrants remit four times more money than unemployed migrant, since higher incomes increase the capacity to send remittances. Therefore growing unemployment rates within the United States and European Union, where almost two-thirds of remittances originate from, will negatively affect remittances levels (Orozco 2009). Figure 4 demonstrates how the rate of remittance growth from the European Union has mirrored the rate of the EU's GDP growth (Gomez Lacalle 2009).

Figure 4: Remittance Growth Responsive to the European Union GDP Growth



Source: Gomez Lacalle 2009

Source: The Impact of the Global Economic Crisis on Migrants' Remittances from the European Union

While remittances may insulate households against domestic economic shock, informal insurance strategies fail when shocks are particularly widespread. A 2009 World Bank policy research report concluded, "the potential impact of the global financial crisis of 2008 on living standards in the developing world has given renewed emphasis to the importance of social safety net programs" (Fiszbein, Rüdiger Schady, and Ferreira 2009, xi). With the loss of remittances due to the crisis, households that previously relied on these private transfers to provide social services are suddenly left without the means to afford these basic services.

More Remittances, Less Government

Ironically, the need for households to use remittances for basic social services, even when governments favor the communal investment of such funds, can be linked to the inverse relationship between remittance levels and government involvement in social services. Since remittances provide households with funds for health, education, and other social services, remittances can hide the failure of a government to provide such services to its citizens. Therefore, large flows of remittances can distort a country's growth by misdirecting government policies, masking the need for structural change, and causing a dependency on such forms of funding (Glytsos 2002, 7). According to Papademetriou and Martin (1991), "Remittances and development are often another example of good intentions gone awry. Remittances do make individual migrants and their families better off, but they are rarely the spark which creates enough economic activity to make emigration unnecessary" (39-40). According to United Nations INSTRAW (2009), the dilemma of where to focus government funds in the face of large remittance in-flows has led to the absence of social protection systems in most countries with high out-migration.

The impact of remittances on government behavior is seen in the correlation between the amount of remittances flowing into a country and the amount of government expenditures on public services. In a 2008 study, Ziesemer found that in middle-income countries, an increase in remittances induces governments to reduce public spending on education (13). Furthermore, Kapur and Singer (2006) found that while market integration intensifies pressure on governments to increase spending in order to protect their populations from economic shock, the presence of high levels of remittances creates different incentives. Governments in developing countries with high levels of remittances spend less on public social protection. In Kapur and Singer's statistical analysis of 114 developing countries, data shows that remittances serve as a substitute for government spending and public social protection programs. Because remittances temporarily insulate populations from economic fluctuation, there is low pressure for public spending when remittances are high. Therefore, with fewer incentives for a state to provide social services, governments leave the responsibility of financing basic social services to individual households.

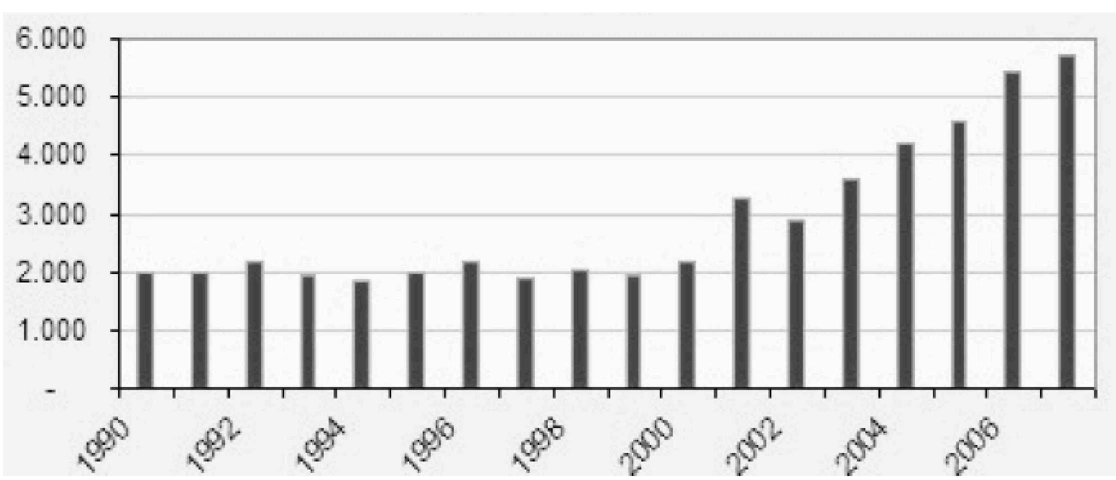
The benefits that remittances provide for individual families, such as paying for basic social services, cannot be ignored by states looking to invest remittances in communal development projects. This is particularly true when remittances have distorted the need for social protection programs in the first place. As long as households lack these social services, the individual use of remittances will take priority over their investment in communal development projects. However, the disadvantages that remittances bring to households, such as dependence on these resources, demonstrate how the individual household consumption of remittances does not produce the maximum economic advantage from the capital. The case of Morocco offers a specific example of how a remittance-centered development policy conflicts with the individual use of remittances by many Moroccan households. Yet, the impact of the global economic crisis of 2008 has exposed remittance-receiving Moroccan households to economic shock and reveals the weaknesses of depending on remittances at a household level.

Part Two

The Utilization of Remittances in Morocco

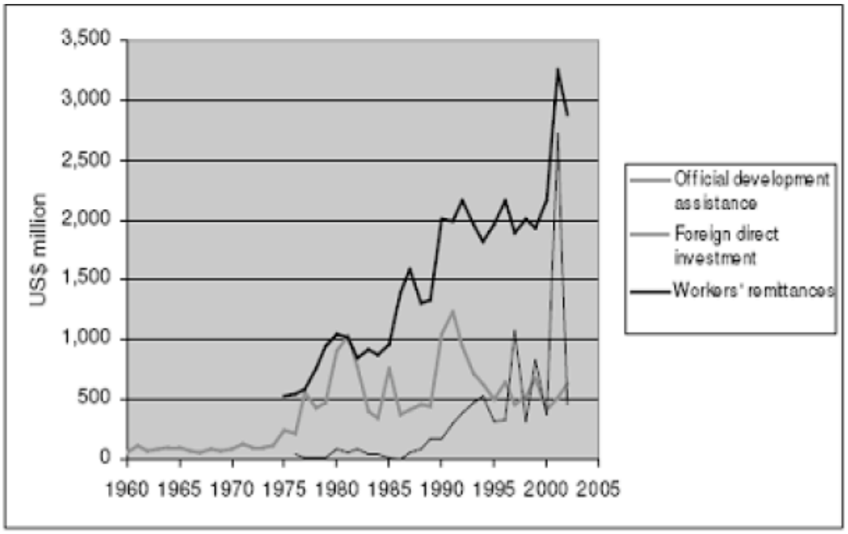
Situated at the edge on the European Union, Morocco is part of the larger labor frontier. As remittance levels have continued to grow faster than other forms of foreign capital flows, remittances have contributed greatly to the government's budget. According to the Moroccan Center for Economics, "fund transfers made by Moroccan expatriates are a major consideration for the Moroccan economy…as a source of extra savings and an essential source of foreign currency" (Morocco Newsline 2008). In 2007, remittances totaled $5.7 billion in Morocco, representing 9 percent of the country's GDP, 296 percent of foreign direct investment, and 704 percent of official development assistance [see Figure 5 and Figure 6] (Migration Information Source).

Figure 5: Annual Remittance in Morocco (1990-2007) [million USD]



Source: Morocco Newsline 2008

Figure 6: Total volume of remittances, ODA, and FDI in Morocco (1968-2000)



Source: Migration Information Source

Remittance-Centered Development in Morocco

In Morocco, current migrants invest capital in Morocco at the rate of four times more than non-migrant households, while returning migrants invest six times more (Driouchi and Azelmad 2004, 7). The Moroccan state has not ignored this fact. Like the governments of Mexico and the Philippines, the government of Morocco has implemented a remittance-centered development policy to facilitate migrant investment. The value of establishing links with the diaspora is supported by a 2004 study that suggests an attachment to the Moroccan homeland could be a long-run determinant of workers' remittances in the country and a means to utilize migrants' entrepreneurial skills for national development (Bouhga-Hagbe 2004, 15).

As the importance of remittances within the Moroccan economy has increased, the government of Morocco has strengthened its relationship with the diaspora population in order to encourage remittances. This courtship can be seen in the creation of new financial and political institutions such and the Bank al-'Amal, the Ministry of the Moroccan Community Abroad, and the Hassan II Foundation for Moroccan Residents Abroad. Within these new structures, the government of Morocco has negotiated for better living conditions for its citizens abroad, provided information for investment opportunities, and maintained cultural ties with Arabic classes and summer camps. Furthermore, in recent years Morocco has adopted fiscal and monetary policies that benefit migrants, including low remittance transaction costs and the creation of a network of Moroccan bank branches throughout Europe (de Haas and Plug 2006, 629). The importance of the diaspora community within this development strategy is demonstrated in the statement of Moroccan Minister of Finance and Privatization Fatallah Oualalou, who stated "a development policy linked to migration flows only makes sense if it is based on equality and respect of individual and collective rights, to serve common interests" (Organization for Economic Co-operation and Development 2005, 4).

Household Uses of Remittances

This remittance-centered development policy shows that the state recognizes the capacity for remittances to finance communal development projects. Yet, as the Moroccan state continues to assert a claim over these capital transfers, it also ignores how remittances are currently used at a household level. Similar to the use of remittances in other countries, remittances support household budgets within Morocco and allow families to afford basic social services. Although Morocco's social indicators are lower than those of most other middle-income countries, remittances prevent these indicators from being even lower. Reflecting on the role that remittances play in Morocco, Abderrahim Bouazza, the Deputy Program Officer at USAID-Morocco stated that, "Remittances are, for many villages and remote areas, a question of survival. In many cases they have no other potential source of revenue than remittances, so it plays a very big role in terms of poverty alleviation" (2009). The findings of a study published in 2000 show how remittances directly sustain household budgets and alleviate poverty. The study, from 1998-2000, found that in households involved in international migration in the Todgha valley of Morocco, remittances accounted for 53 percent to 59 percent of total cash income (De Haas 2006, 14). Furthermore, a second study from 2000 found that in the period of 1984-1999 remittances have kept four percent of Morocco's population, almost one million people, out of poverty (Gallina 2008, 17).

Impact of the 2008 Global Economic Crisis in Morocco

While remittances do directly benefit Moroccan households, dependence on this form of capital to combat poverty has its disadvantages. The global economic crisis of 2008 has shed light on the weakness of the large role that remittances play within Morocco. In late-2008, L'Office des Changes, Morocco's exchange rate monitoring body, announced that remittance levels in Morocco were down 3.5 percent from 2007. By the end of 2009, remittances had further decreased by 5.3 percent from the end of 2008 (Kingdom of Morocco 2010).

Due to Morocco's close relationship with Europe, the vulnerability of its economy to external shock is not unexpected. In fact, within the region of the Middle East and North Africa, Morocco's strong link with Europe make it one of the most vulnerable countries to external shocks. Over 85 percent of the Moroccan population living abroad resides in Europe, providing the overwhelming majority of the country's remittances. Thus, Europe's growing unemployment in 2008 and 2009 is reflected in the decrease of remittance levels.

Unfortunately, in the case of Morocco, a decrease in remittance levels could do more damage to poverty reduction than an increase in remittances would have helped. According to a Nicholas Glytsos, of the Centre for Planning and Economic Research, in a 2002 report:

> *"For these countries [Egypt, Jordan, and Morocco], the growth generating capacity of rising remittances is much smaller than the growth destroying capacity of falling remittances. This is indicated by the finding that the elasticities of induced negative growth rates of output with respect to falling remittances are much higher compared to the corresponding elasticities with respect to rising remittances…In other words, countries are on the average more uniformly affected during the downturns, than during the upturn in remittance flows" (22).*

Based on the findings of this study, the economic growth gained from high remittance flows could be reversed, leading to even greater levels of destroyed growth. If this were to happen, households may experience deeper poverty than before.

As seen by De Haas (2006) and Gallina (2008), remittances do have a large impact on Moroccan poverty levels and social indicators. Therefore, the assertion of state control of remittances for the use of communal development projects does not adequately address the important role that remittances already play at a household level. However, as seen by the impact of the global economic crisis of 2008 on remittance levels, household dependence on remittances leaves families vulnerable to global economic shock and may not represent the most productive use of remittances. Thus, the need for the basic services that remittances pay for within individual households, as explained in new economic labor migration theory, must be reconciled with the maximum economic benefit that remittances can generate through communal investment, as supported by migration mobilizationists.

Chapter Three

Part One

Redirecting Remittances through Implementing Social Protection Programs

As seen in the previous chapter, global remittances have lifted millions of people around the world out of poverty and offer governments a means to finance economic development through diaspora direct investment. However the individual and communal uses of remittances are mutually exclusive. Therefore, a successful remittance-centered development policy must address both individual and communal needs while ensuring that the maximum economic advantage from this form of capital is obtained. Currently, the model of DDI gives states an opportunity to gain the maximum profit from invested remittances in a manner that transitions the economy from dependence to self-sufficiency. However, it does not address the individual needs of the population. To do this, governments must provide social protection programs for their populations, in order to insure households from risk, while opening up remittances for development purposes.

Public and Private Funds: the Crowding Out Theory

When adopting a strategy to address households and free remittances up for communal investment, it is essential that policy makers understand the relationship between public and private funds. Because remittances can provide social benefits similar to those of public programs, the creation of public programs may overlap with private transfers that already exist. The effect of this overlap is known as 'crowding out.' More specifically, if a public program provides services for households, migrants will have less incentive to participate in a family-based insurance system and may stop sending remittances. Once the government funded social program is well established, private transfers may be reduced due to the diminished need.

Economic studies on the subject have predicted varying degrees of crowding out. A 1989 study showed that private transfers in Peru from younger to older family members would have been twenty percent higher without the presence of social security pension benefits within the country (Cox and Jimenez 1990). Along this same line, a 1993 study in South Africa showed that the introduction of a pension system to the elderly reduced private transfers by twenty to forty rand for each 100 rand of public transfers (Morduch and Sharma 2002). The phenomenon of diminished private transfers once public transfers are introduced has also been seen in Mexico (Albarran and Attanasio 2003), Armenia (Murrugarra, Chaudhury, and Hammer 2003), and South Korea (Kang, and Sawada 2009).

The disappearance of remittances with the introduction of public services is not beneficial for the state. But the displacement of remittance and their subsequent redirection towards communal investment is an opportunity for governments. According to a 2004 report published in *World Development*, "Some crowding out is desirable because it reduces the pressure on poor households to cover the cost of old age, unemployment, disability, or other misfortunes that other members in the wider sharing network experience. Public assistance in caring for elderly parents, for example, allows young families to invest in human capital development and money-making schemes" (Heemskerk, Norton, and de Dehn 2004, 951). This idea of beneficial crowding out is also supported from data collected on remittances in Nicaragua. The data suggests that an increase in remittances increases the likelihood of a household to request a loan. This is because households with remittances have greater flexibility in income, as long as they do not have to spend them on basic education, health care, and nutritional needs. If these services are already provided, households can take advantage of new investment opportunities provided by a rise in liquidity and creditworthiness (Hernandez 2007, 21). However, in order to prevent households and states from losing these private funds altogether, policy makers must create incentives to direct remittances towards productive communal development projects.

Channeling Remittances to Development: Conditional Cash Transfers

The involvement of the government in providing social services for its population is not a new remedy for poverty, nor is it a new strategy for economic development. However, past initiatives have failed and resulted in the disappearance of public funds in favor of a privately financed alternative. Therefore, the implementation of publically financed social services within a DDI framework must take into consideration the failure of centralized bureaucracies in the past. Current examples of successful public social protection programs favor a new model: conditional-cash transfer programs (CCTs). A conditional-cash transfer program allows households to access certain funds on the condition that the family partakes in certain activities, such as sending children to school or obtaining primary healthcare services. Therefore, with CCTs, households have a financial means to access education, health, or nutrition. This model has been successful in Latin America, most notably with Mexico's *Progresa-Oportunidades* program, Nicaragua's *Red de Protección Social* program, and Brazil's *Bolsa Escola* program. Outside of Latin America, there are also large scale programs in Bangladesh, Indonesia, and Turkey, as well as pilot programs in Cambodia, Malawi, Morocco, Pakistan, and South Africa (Fiszbein, Rüdiger Schady, and Ferreira 2009).

A 2009 study on Mexico's CCT program showed that individuals without any insurance coverage were two times more likely to live in households that spent remittances on health care than individuals covered by government employee insurance (Frank et al. 2009, 1229). This demonstrates that households that do not receive formal insurance coverage are forced to pay out-of-pocket with remittances in order to receive health care. The authors conclude that, "improving coverage and quality of care within the national health care system will help insure that remittances complement but do not serve as a substitute to formal access to care" (Frank et al. 2009, 1231). In other words, not only could public social programs free up remittances for investment purposes, but government financed social programs could also do a better job of providing education and healthcare to their populations than remittances do.

Studies on these public social protection programs indicate significant success and also show that they have not had detrimental impacts on remittances flows. In Nicaragua, the *Red de Protección Social* program (RPS) gives a food security transfer of $224 per year to its participants plus an additional school attendance transfer of $113 for households with children between 7 and 13 (Hernandez 2007, 4). According to a study on the efficacy of the program, "RPS does not seem to affect households' access to remittances, nor the value of remittances received. This suggests that family and friends sending remittances did not stop doing so nor did they reduce the amount sent after the household began participating in RPS" (17).

These examples of conditional cash transfer programs exemplify how social protection programs could substitute for the use of remittances at a household level, opening private funds up for communal investment purposes. Yet, these programs are only half of an overall strategy to direct remittance towards communal development projects. Remittance-centered development policies must complement a comprehensive social safety net in order to attract remittances at the same time that they are being crowded out of a traditional individual household use. Within Morocco, there are three new social protection programs to each address a different aspect of household needs. These complementary programs better illustrate how a comprehensive social safety net can be created in order to replace the household use of remittances and direct them towards communal development projects.

Part Two

Social Protection Programs in Morocco

Throughout the Middle East and North Africa, many governments have been able to rely on the revenues of oil exports, foreign aid, and/or remittances to finance government expenditures and postpone the adoption of widespread reforms (Yousef 2004, 109). In the case of Morocco, dependence on the latter source of capital has led to an "inadequacy of social safety nets to protect the most vulnerable such that indicators like child malnutrition are much higher than comparator countries. Most safety net programs are ad hoc and fail to capture many of the poor when they are adversely affected by livelihood shocks" (Harrigan and El-Said 2009, 6). A 2006 evaluation of the African Development Bank Group's assistance to Morocco further critiqued the lack of social safety net programs, stating "The performance of economic policies has so far not been backed up by equitable distribution of economic and social progress. At the social level, particularly in rural areas, Morocco is closer to a least advanced country of sub-Saharan Africa than to a Mediterranean middle-income country. All in all, the actions and reforms undertaken by the Government, particularly the institution of a social protection framework compatible with poverty reduction efforts and financially viable, are still insufficient." (African Development Bank 2006, 36)

One of the challenges facing the Moroccan government in reforming social protection programs is the problem of limited financial flexibility, due to the financial crisis. Yet, while the economic crisis and decreasing remittance levels will only augment the deficiencies in Morocco's social services, the crisis may actually serve as an opportunity for the government of Morocco to restructure and retarget social protection program towards the most disadvantaged populations in order to free up remittances for investment purposes. According to Nadine Poupart, a Senior Economist at the World Bank, "A major lesson of the financial crisis is that countries that are better able to deal with the crisis are those that have social protection systems…You need to develop a social protection system that allows you to identify the poor when there is a crisis and make transfers efficiently. [Morocco] has elements of social protection, but these elements are not coordinated, sometimes overlapping and with gaps."

Three current government programs illustrate how a comprehensive social safety net could eventually be implemented in Morocco. While these programs are not at a mature enough stage to combat the current global economic crisis and the decrease in household remittance levels, in the future they may supplement the basic social services that remittances currently fund for many Moroccan families. These include a conditional cash transfer pilot program for education, the Medical Coverage Reform Support Program, and L'Initiative Nationale pour le Développement Humain.

First, the Ministry of Education is currently piloting a conditional cash transfer program, the first of its kind in Morocco. If results are successful, a broader program could provide money to families if they keep their children in school. Currently, if remittances provide a household with the only means to send children to school, a decrease in remittances could mean the end of a child's education as funds are budgeted for more immediate needs. This stay-in-school program would limit or remove the dependence of a child's education on volatile cash flows.

Second, the Medical Coverage Reform Support Program (PARCOUM) is a program designed to improve access to health services in Morocco. The first phase of the program (PARCOUM I 2002-2006) strengthened the Basic Medical Coverage (BMC) for the formal sector of the working population. However, the second phase of the program (PARCOUM II

2008-2012) is meant to expand the access of BMC health care services to the entire population. The program hopes to particularly target those groups that are most economically disadvantaged, estimated at 8.5 million people. If the second phase is successful, households would no longer need to rely on remittances for basic healthcare needs, and a period of financial instability would not mean risking poor health and disease (African Development Bank 2008).

Lastly, L'Initiative Nationale pour le Développement Humain (INDH), a royal initiative run through the Ministry of the Interior, was started in 2005 with a $1.25 billion budget to address Morocco's social problems. While the first phase of the INDH (2005-2010) generally addressed these social problems, including poverty, the second phase (2011-2015) will account for factors that allow families to slide into poverty and lessen the need for supplementary funds such as remittances. Through a process of participatory budgeting, local provinces receive funds. In this way, communities are able to diagnose their own need and implement their own programs with funding from the INDH. The structure of this initiative is promising as it fills in the gaps of the country's social protection infrastructure, with results tailored to each community. However, unless the INDH is expanded into a national strategy for social development reform, its current resources are insufficient for fully addressing the inadequacies in social protection (Aribi 2009).

The success of these three programs will depend on the ability of Moroccan government ministries to jointly maintain a social protection system. Currently, fragmentation, lack of coordination, overlaps, and gaps within government ministries have had the same impact on the current system of social services in Morocco. The Ministry of Social Development, Family, and Solidarity, while probably the most appropriate candidate to lead a broad reform of the Moroccan social protection system, is less strategically organized, less active, and less entrenched within the country than other ministries. The Ministry of Interior on the other hand has a very strong role with social development and poverty reduction. Other ministries that participate in social development include the Ministry of Agriculture, the Ministry of Employment, and the Ministry of Health (Poupart 2009). Unfortunately, there are no inter-ministerial coordinating mechanisms in order to streamline programs or align objectives. Such a coordinating mechanism might increase the efficiency and effectiveness of current ministry programs designed to reform Morocco's social protection system.

These three programs serve as examples for how the Government of Morocco could build a comprehensive social safety net from complementary programs. If these three programs successfully complement one another, remittances would not serve as financial lifelines for households and could be invested into communally beneficial development projects. However, a comprehensive social safety net is only half of an overall government policy to direct remittances towards communal development projects. These social protection programs would align with existing government initiatives to attract remittances from a diaspora population. Ideally, once a Moroccan family could obtain basic social services through government programs, the migrant who had sent remittances for the purpose of individual use in the past would be willing to invest those same funds into communal development projects. In this way, diaspora direct investment policies are not compulsorily linked to the implementation of social protection programs. Instead, government incentives would attract remittances at the same time that they are being crowded out of a traditional individual household use by government programs that offer basic social services. This scenario illustrates how these two sets of policies would form a complementary relationship. However, it is necessary to briefly address the possible negative effects that such policies could have.

Part Three

Negative Effects of Remittance-Centered Development

A successful remittance policy, as described in the previous section, would provide families with basic social services while opening up remittances for investment at a national level. However, along with these benefits, it is necessary to consider the negative consequences that these policies could have. Such consequences include a lack of tangible benefits for migrants, a pressure on households to send members of the family abroad, and the ability for corrupt government officials to direct invested remittances toward personal uses.

Current remittance-centered development policies encourage migrants to invest remittances into communal development projects. However, governments must address whether migrants and their families are receiving tangible benefits once their remittances are invested. If remittances are invested into projects in local communities, migrants' families may directly benefit from access to new infrastructure or an additional value to their property. Yet, if these local benefits from investments are not obtained, migrants may be less inclined to invest capital into their home country.

A second limitation of a remittance-centered development policy concerns the pressure that such a policy places on families to participate in migration. At an economic level, government supported migration encourages the 'best and brightest' citizens to pursue education and employment abroad. Known as "brain drain," this critique of migration was predominant in the development literature of the 1970s. Conversely, proponents of migration point to an opportunity for "brain gain" once migrants return with education or labor skills. However, brain gain depends on patterns of temporary migration, which is not necessarily the intention of many migrants. On a societal level, government supported migration results in the separation of family members. While family reunification programs were implemented in Europe in the 1970s and 1980s, initial migration of Moroccan citizens generally begins with the emigration of a single family member. Although this paper does not directly address the societal impacts of remittance-centered development policies, it is important that governments acknowledge the trade-offs within society in order to obtain the developmental benefits of remittances.

Lastly, the potential for government corruption limits the benefits of a remittance-centered development policy. Governments must adopt transparent practices in order to maintain a flow of remittances for communal development projects. Such policies with fail as long as migrants do not believe that remittances will be used efficiently and effectively. These three limitations of remittance-centered development policies require that governments evaluate current or future diaspora direct investment policies in order to identify the weaknesses and weigh the tradeoffs that exist in such development strategies.

Conclusion

Development literature within the past thirty years has focused on the possible benefits that remittances can have for development. Within new economic labor migration, the household use of remittances was identified as a means to decrease poverty levels. Today, within development literature, the benefits of remittances at a household level have been overshadowed by the benefits of remittances to finance communal development projects. Based on the recommendations of migration mobilization literature, remittances play a large role in the development policies of countries with high out-migration who want to gain the maximum economic advantage from this source of capital.

As Chapter Two shows, states with large diaspora populations are strengthening their relationship with migrants in order to facilitate the investment of remittances through diaspora direct investment (DDI) programs. By encouraging the diaspora to take on economic responsibilities for the development of their home country, governments assert a state claim over the use of inflowing remittances for development purposes. However, by doing so, these remittance-centered development policies ignore the essential role that remittances play in individual household budgets.

As a financial lifeline for many families in emerging economies, private transfers pay for basic social services, such as education and healthcare. Unfortunately, the dependence on remittances for these services exposes households to global economic shock. Furthermore, the individual use of remittances fails to extract the maximum economic advantage from the capital in the form of long-term sustainable development.

As expressed in Chapter Three, as long as individual households are left to finance basic social services, the use of remittances for such services will take priority over the investment of remittances for communal development. As the case of Morocco illustrates, the primacy of using remittances for basic social services complicates remittance-centered development policies. Therefore, in order for remittances to become a successful tool for development in emerging economies with high out-migration, states must implement social protection programs to substitute for the redirection of private funds. These programs, such as conditional cash transfer programs, could provide education and healthcare to families previously dependent on remittances. In Morocco, the conditional cash transfer pilot program for education, the Medical Coverage Reform Support Program, and L'Initiative Nationale pour le Développement Humain address the current inadequacies of Morocco's social safety net. Each program provides households with access to basic social services that they might otherwise have been paid for with remittances. With these priorities met, households and migrants may be more willing to direct their remittances towards the benefit of the community by investing in development projects. In order to gauge the success of these three programs in Morocco, as well as similar programs around the world, further research is necessary. Additionally, future research is required in order to determine whether remittance-centered development policies are successful in facilitating the investment of remittances once these private funds are no longer used to afford basic social services.

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