The Role of Remittance in Development: The Case of Rwandan Diaspora’ Remittances

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Abstract

Remittances and development are progressively becoming inseparable areas. In other words, remittances are increasingly associated with development factors. This is because money transferred by the Diaspora to their native country is contributing to improving the living conditions of beneficiaries as well as the economic growth of the recipient country. This paper examines the contribution of remittances from Rwandan Diaspora to the national development of the country. The results revealed that the amount of money remitted during the four years assessed i.e. from 2006 to 2009 is an important contribution to the national income which exerts a positive impact on consumption and production as money circulates in various sectors. The rationale for remittances included health care issues and education; building houses; improvement of family life, i.e. poverty reduction; investment in business; purchasing animals and other important items. Findings further indicated that the problems faced during the process of transferring money were transaction costs, foreign exchange costs, taxation on remittances, and restrictive legislations in the host country.

Key words: Diaspora, remittances, migration and development.

1. Introduction

1.1 Background of the study

Remittances and development have and continue to attract much attention of politicians, policy makers, academicians, international development agencies, researchers, etc. In the past times migration was associated with factors that contribute to slowing down the development process particularly of sending countries, but currently the trend is changing whereby Diaspora is seen as a potential factor of development in various ways. The George Washington Diaspora Research Program cited in Osman (2008:1) stated that “scientific evidence is continuously mounting and consistently showcasing the insurmountable social and intellectual contributions of Diaspora and migrants to the development of the
homelands…” The relationship between Diaspora and development is becoming increasingly acknowledged. This linkage first gained international recognition in 2006 during a UN High Level dialogue held in New York. At this platform development was considered as an integral facet of migration discussion (United Nations, 2007).

Specifically, the Government of Rwanda, having realized the importance of the Rwandan Diaspora in the national development, strongly believes that the Rwandan Diaspora is an important constituent that cannot be ignored, and which, if it is well harnessed, can contribute to the socio-economic development of the country (The Rwanda Diaspora Policy, 2009:2). It is in this regard that a Rwandan Diaspora policy was initiated and adopted in 2009 by the Government of Rwanda for mobilizing and integrating Rwandan Diaspora in the national development.

1.2 Definition of Concepts

Diaspora is a complex concept especially when it comes to providing a definition. This is recognized by Matsas (2008:10) when he says that Diaspora is difficult to define, and not all countries use this specific term when addressing their nationals abroad.

But for the purpose of this study a definition of Diaspora given during the first meeting of GFMD1 (Report of the first meeting of the GFMD cited in Matsas, 2008:10) is used. It defines the Diaspora concept as follows: “individuals originating from one country, living outside this country, irrespective of their citizenship or nationality, who, individually or collectively, are or could be willing to contribute to the development of this country. Descendants of these individuals are also included in this definition.”

As far as remittances are concerned, Kupstch and Martin (2004) stated that “remittances are the portion of migrant incomes abroad that are sent home.” Matsas (2008) added in saying that, in practice, what is understood as

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1 This abbreviation means Global Forum on Migration and Development. The first meeting of this platform was hosted by Belgium in 2007, and was focused on human capital and labor mobility, remittances and Diaspora, as well as institutional and policy coherence, as cited by the Report on the 2008 Global Forum on Migration and Development Civil Society Days “Protecting and empowering migrants for development”, December 2008, consolidated by Sarah Osman, and published through www.diaspora-centre.org.
“remittances” by development practitioners mostly include three types of transactions, originating from the migrants themselves or from their descendants: first, individual – mostly small and regular – financial transfers to support relatives back home; second, money sent to friends or relatives in the country of origin to finance economic investments; and third, individual or collective philanthropic support to development projects.

However, remittances’ value is normally appreciated in terms of its impact on social and economic progress or in one word “development” i.e. the improvement of living conditions of an individual or society, which touches different areas of life (social, economic, technology, etc). It is usually materialized by the improvement or enhancement of the well-being of people derived from certain additional means of production acquired. Clifford and Osmond (1971:16) defined development by emphasizing the need for progress, economic and social changes, economic development, and change in income per head and change in economic welfare.

Furthermore, the word migration is defined by the International Organization for Migration’s Glossary on migration, cited in Matsas (2008:2), as a “process of moving, either across an international border, or within a State. It is a movement, encompassing any kind of movement of people, whatever its length …. In this paper the term migration specifically means international migration.

Evidenced results from different secondary sources, outside Rwanda, such as scientific journals, reports, conferences and authors like Orozco et al., (2005) said that from an economic standpoint, the impact of remittances coincides with development. Remittances received by families improve their quality of life, as well as conditions in rural communities where resource, particularly financial, scarcity is problematic. These foreign savings also have an impact on national growth and capital accumulation. First, the sheer volume of money often amounts to a significant portion of national income, thus affecting consumption and production in the economy. Second, remittances exhibit countercyclical features that are non-negligible; despite economic cycles, remittances follow an incremental growth informed by their family obligations. Third, as foreign savings, remittances are conduits to other forms of investment as they help senders and recipients to consider their various options for income generation. Matsas (2008) showed that remittances present some characteristics that increase their relevance for development. First, they are more evenly distributed across developing countries than private capital flows with smaller and poorer countries receiving relatively larger remittances as a
share of their GDP. Second, remittances augment the recipient’s income more directly than official aid could do, including through indirect multiplier effects (enabling better access to social services, supporting small business investments, etc.). Finally, remittances – even individual flows – have, in aggregate, macroeconomic effects, which, like their micro effect, can be positive or negative according to the local conditions. Kapur (2004:9) agree that remittances finance consumption, land and housing purchases and philanthropy; they are an important sources of social insurance in lower income countries and they provide liquidity for small enterprises (in the absence of well functioning credit markets) as well as capital investments - in equipment, land, wells and irrigation works and education – with long term implications for economic development.

2. Problem statement

Rwanda, as most countries in the world, has its Diaspora i.e. its nationals living abroad and these Rwandans of the Diaspora are probably playing a role in the development of their country of origin. This role may be achieved through financial transfers or remittances, technology, knowledge and skills transfers, etc. However, as the Diaspora’s contribution may be made in different ways, my research intends specifically to assess the contribution of remittances from the Diaspora to the national development of Rwanda. Since relatively many years, the Rwandan Diaspora has been transferring money in the country but no studies or very few have been devoted to assess its contribution to the country. It is in this perspective that this study was undertaken.

3. Objectives of the study

The main objective of this paper is to examine the role the Rwandan Diaspora is playing in the development of their country of origin towards remittances. It intends also to identify the rationale that pushes the Diaspora to send money to their native country. Then, the study seeks to determine the main challenges/problems faced by the Diaspora when transferring money to Rwanda and channels used.

4. Research questions

The present study which focused mainly on the Rwandan Diaspora case envisages responding to the following questions: Do the Diaspora’s remittances contribute to the development of Rwanda? If so, in which way? What can be done in order to enable them to contribute more efficiently to the development of their country of origin?
5. Methodology

To understand how the Rwanda’s Diaspora is eager to participate in the development process of their native country, an interview\(^2\) was conducted with individual Rwandan Diaspora. In addition, secondary data related to the remitted money from the Diaspora were collected within the Department of Statistics at the National Bank of Rwanda\(^3\). The investigation used both qualitative and quantitative methods. The collected statistical data covered four years, i.e. from 2006 to 2009. These figures provide a clear viewpoint about the trend in relationship with the money transferred from the Rwandan Diaspora. As far as the interview is concerned, it was conducted in December, 2010 in Rwanda during the retreat of the Rwandan Diaspora usually organized by the Diaspora General Directorate. A total number of 50 individuals were interviewed, that is, each continent was represented by 10 persons. All interviewed individuals have spent from 5 years and above in their host countries.

This study investigated recipients of the money remitted and channels used. It also examined, on the one hand, problems encountered by the Diaspora when remitting money, and challenges faced by the Rwandan Diaspora during the process of investing in Rwanda, on the other hand. Finally, this paper assessed motivations behind the action of transferring money in Rwanda.

6. Findings and Discussions

According to the Department of Statistics of the National Bank of Rwanda, within the four recent years, Diaspora has remitted around USD 25.01 million in 2006, USD 98.50 million in 2007, USD 63.31 million in 2008 and finally USD 88.13 million in 2009. From these data, it appears that the year 2006 recorded a small amount of remittances in comparison with other years, and the reason seems to be an absence of a mechanism to capture informal transfers as well. That amount covered only money sent using the

\(^2\) Interviews have been achieved in four days and each one covered between 30 and 35 minutes. It was conducted on the basis of an interview guide encompassing different aspects related to the topic such as rationale of transferring money, recipients of the sent money, channels used, challenges faced by the Rwandan Diaspora when transferring money, etc. To access key informants, the researcher was facilitated by the Diaspora General Directorate (after the presentation of a recommendation letter from its Faculty) which knows them well.

\(^3\) Statistics data on remittances from the Diaspora presented in this paper were collected from the Statistics Department of National Bank of Rwanda. They cover the period between 2006 and 2009.
formal channel. In the following three years, i.e. 2007, 2008 and 2009 a relative adequate mechanism to capturing equally the money transmitted through informal system\(^4\) was set. It should not also be ignored the impact of high official visits (realized during those years) targeting the Diaspora in their host countries which aimed essentially at sensitizing these Rwandans to play a crucial role in the development efforts of their motherland. These are among the reasons why remittances’ figures increased. Particularly, in 2008 money remitted by the Diaspora was reduced when compared with the previous year. This phenomenon is absolutely associated with the financial crisis that affected the whole world including Diaspora incomes.

Coming to the results of interview that provide more clarifications on the situation of Diaspora remittances in terms of its rationale, recipients, channels, etc; it is useful to highlight here that motivations which are behind the activity of sending money to Rwanda are diverse as it has been claimed by respondents. The reasons indicated are the following: education and health care issues; improvement of family life, in other words, poverty reduction; investment in business “as the business environment is highly conducive”, some interviewees indicated; building houses; purchasing animals such as cows and other important items. It is clear that the money remitted covers different areas (production or investment, education and health, fighting against poverty – briefly socio-economic aspects). Once obtained, that money is not only benefited by an individual or a family that received it but it normally circulates to different sectors, and thus it has a positive impact on economic circuits as well as economic growth which foster national development. What can be further deduced from the motivations given above is that basic needs such as shelter, education and health care are covered by a non-negligible portion of remittances. The same results were found by Kuptsch and Martin (2004) mentioning that most remittances are spent by recipients on items needed for daily living. Since remittances often exceed what the breadwinner would have earned at

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\(^4\) Informal transfers are captured towards Foreign Exchange Bureaus that normally have two sources of the foreign currency: banks and public. But, as bank transfers from Rwandan Diaspora are already known and recoded, the Department of Statistics of the National Bank of Rwanda focuses on transactions of the last source, that is, public that includes residents and non-residents (for example: tourists). Therefore, money sent through the informal way is known or captured based on the daily report of the Foreign Exchange Bureaus sent to the National Bank of Rwanda. In terms of error associated with the used technique, the Department of Statistics of the National Bank of Rwanda estimates it at 5%.
home, some portion is usually spent on other items, including housing, education, health care, etc. In addition, the general viewpoint of the results found corroborate with the findings of Page and Adams (2003 cited in Dang 2005:113) which disclosed that the impact of remittances is to sustain the subsistence and incomes of households and contribute to the growth of local economy towards a certain fraction channeled in the investment. Respondents revealed that the remitted money is usually sent to parents, children, relatives, friends and family. “Sometimes it just passes through these intermediary hands (as they are at the ground) for financing or undertaking activities fully belonging to the Diaspora member, such as house construction, business, etc”; one of our informants has disclosed. This means that Diaspora remits money either to support family members and friends at home or to fund their own projects initiated in the country. In considering statistics data on remittances discussed on the previous page, it is obvious that the annual volume of money transferred is a significant part of national income that exerts an important effect on consumption and production in various ways, particularly through multiplier effects as money circulates in different areas of business.”There is a multiplier effect of remittance spending, so that each $1 in remittance spending can generate $2 to $3 in local economy activity, meaning that non-migrants can benefit indirectly from migration, especially if remittances are spent on locally produced goods” (Kuptsch and Martin, 2004). Sheffer (2003 cited in Fouron, 2004) added that the impact of remittances on economic growth is probably close to double the actual amount sent.

As far as remittances’ channels are concerned, both formal and informal are used. The former is constituted by the formal banking institutions and authorized money transfer operators, while the latter consists of cash and commodities transfers through friends, families and non banking money transfer systems with weak compliance systems (the Final Report on Regional Consultation on Migration, Remittances and Development in Africa organized by UN, UNDP and the Government of Ghana, 2007). According to respondents’ views, those two systems are exploited: the choice depends on the urgency or the need of the money to be sent and the opportunity available to the sender. They acknowledged the quality of quickness, reliability and safety belonging to the formal channel, yet a great number of the Diaspora senders still utilized informal channel although it is, according to some informants, “unsecured”; and they further pointed out that “informal system is used whenever possible in order to avoid high transfer charges or costs.”
This problem of remittances’ costs has gained attention within the regional consultation on migration, remittances and development in Africa held in Ghana where transaction costs for money transfers to Africa have been considered as a major deterrent for remittance transfers through formal channels. As a result, the high cost of transfers leads to low volume of remittance flows through banks and financial institutions to Sub-Saharan Africa, leading in turn to higher transaction costs imposed by money transfer operators, thereby perpetuating a vicious cycle (the Final Report on Regional Consultation on Migration, Remittances and Development in Africa organized by UN, UNDP and the Government of Ghana, 2007:4-5).

Thus, the charges which the Diasporas mean to notify include payment fees for processing the transfers and for covering commission on the exchange of the currency. Even though the situation may vary from country to country, it can be prominently expensive because transfer costs are calculated on a determined percentage of rates based on the amount to be sent.

These sending costs in conjunction with foreign exchange costs, taxation on remittances, and restrictive legislations of the host country exercise an impact on Diaspora ability to remit because they are reported to be the key problems faced by the Diaspora during the process of money transfers. A great number of Diaspora members interviewed declared that “these problems undermined our capacity and commitment of transferring money home, especially when it is small amounts of money”; as Matsas (2008:15) has said transaction fees present a regressive structure, with more being charged on small transfers.

Rwanda’s Diasporas then have altruistic commitment for investing in the home country, the rationale advanced being: peace, political and economic stability prevailing in the country, interesting opportunities which are in Rwanda, motherland or patriotic will, and favorable environment for doing business established. Currently, the Rwandan Government has facilitated investors, in general, in simplifying processes in comparison to the past. In this regards, the RDB’s Chief Operating Officer, Claire Akamanzi cited by Kaliisa (2011:12) said that “three years ago, if you wanted to start a company in Rwanda, you would go through sixteen procedures which would take two weeks. Today, if you are starting a business, it will take you a procedure and a day.” This is among the reasons why last year the World Bank ranked Rwanda the 9th easiest place to start a business in the world. All these improvements in conjunction with peace and political stability as

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5 This means Rwanda Development Board, which is a public organization responsible for channeling all investment activities in the country.
well as a stable and flourishing economy are among factors attracting not only the Diaspora but also foreign investors to start businesses in Rwanda. In the framework of showing their commitment to contribute to the development of their motherland, nationals living in Europe, for instance, have recently initiated the Rwanda Diaspora Mortgage Group to create more business opportunities in the country and this implies that instead of one person getting mortgage facilities from banks, it will be a group to access the facility, which they say, will increase the capital flow from abroad, in the long term (Kabeera, 2001). Moreover, as the RDMP leader Sentenga revealed “various banks in Rwanda had already expressed their interests in funding the initiative and he further noted that although many will be looking for residential mortgages, some have already expressed interest in exploring commercial mortgage opportunities” (cited by Kabeera, 2001, p.6).

It is obvious that this initiative (Rwanda Diaspora Mortgage Group) will enable active and keen Diaspora to receive credit from banks, which is a crucial step in terms of development because it enables receivers to undertake productive projects in the country. As the Rwandan Diaspora are devoted to invest in their motherland, thus participating in the collective development effort, it should be important to offer some incentives and mechanisms conducive to that purpose. Therefore, Diaspora members interviewed revealed the major attractive investment sectors in the country such as tourism, real estate development, constructing own house, livestock and agricultural production, education, importation of goods to Rwanda, transportation, information technology and manufacturing. Most investments indicated tend to be family-owned businesses, and probably this reflects the limited capital which individual Diaspora might own.

Those who have already initiated certain investment projects in Rwanda identified some challenges faced during the investment process. They may be grouped into four major types, namely: bureaucratic process for obtaining the required documents particularly at local level, the problem of customer care, certain maneuvers of corruption, and lack of information in relationship with available opportunities. In connection with bureaucratic procedure, for instance, (which seems to be the main challenge), respondents expressed their views essentially in showing how this constitutes a serious impediment. One interviewee said that “local leaders do not expedite issues on their level when, for example, looking for some

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It simply means Rwanda Diaspora Mortgage Group.
documents.” Another added that “many officers try to tell us to come tomorrow when we do not have enough time, for example to get authorization for house construction”. Another Diaspora member indicated that “terribly long procedures, in some administrative offices especially at lower levels you may think that workers appear to be on vacation.” Obviously, all these problems, if they are not resolved, can be an obstacle to remittances or can discourage Diaspora members (or any other person) who are willing to contribute in one way or another to the development process of their homeland.

As far as factors that might contribute to increasing remittances from the Diaspora are concerned, those interviewed provided the elements below: reduce remittances cost, facilitate more competitiveness between money transfer operators and avail data related to investment opportunities in the country. In showing how remittances cost is, for example, a great problem; one interviewee states that “Government should facilitate Diaspora members to create money transfer companies abroad.” In brief, the suggested factors summarized two main aspects: reducing transaction costs and availing investment opportunities data. Particularly, for the reduction of remittance charges, local and international levels should engage in a sincere debate on this issue and find an adequate mechanism that facilitate remittance flows from the sending country to recipients. Undoubtedly, the fact of minimizing remittance costs is a key factor in terms of money flows and related values as Matsas (2008:15) disclosed in summarizing the positive results of reducing transaction costs as follows: (i) reduction of remittance costs is expected to encourage the use of formal remittance channels, (ii) increasing the use of formal transfer mechanisms in return offers opportunities to leverage remittances’ development impact by enabling the provision of options and incentives for individual savings, investments opportunities or support to local development projects, (iii) formal transfers also enable better development policy planning and response to the possible negative impact of these flows, facilitate financial intermediaries’ access to international capital. However, the initiative of creating a competitive environment among money transfer operators designed as a path of boosting remittances (in that it contributes to reducing transaction costs) is a major solution to that end, such as Fouron’s (2004:13) findings suggested “encouraging competition among money transmitters and promoting better use of technology will further reduce the costs of transfers and thus increase the amount of money available to developing countries.”
7. Conclusion

This paper assessed the contribution of remittances from the Diaspora to the national development of Rwanda. The results of the study showed that Diaspora were remitting money home and were dedicated to play a role in the development of their native country. Statistics available on remittances, for a period of four years, revealed that the portion of amounts sent absolutely had a positive impact on economic growth as well as the national development of the country. The recipients of the remitted money were parents, relatives, friends or family in general and were channeled through formal and informal systems. Specifically, the informal channel was used for avoiding transaction costs. The rationale for remittances included education and health care issues; improvement of family life, i.e. poverty reduction; investment in business; building houses; purchasing animals and other important items. The problems faced during the process of transferring money were transaction costs, foreign exchange costs, taxation on remittances, and restrictive legislations of the host country. The Diasporas were passionate to invest in their country of origin, so interesting sectors for them were tourism, real estate development, constructing own house, livestock and agricultural production, education, importation of goods to Rwanda, etc. However, elements like reducing remittances cost, create more competitiveness between money transfer operators, and availing data related to investment opportunities in the country might contribute to increased remittances.

For further research the following areas may be exploited: Role of recipients in the management and use of remittances, types of Government incentives and their impact on the Rwandan Diaspora behavior, Contribution of Rwandan Diaspora to the socio-economic development of Rwanda.

References


5. Final Report on Regional consultation on Migration, Remittances and Development in Africa held in Ghana, 2007. This regional consultation was organized by United Nations in conjunction with Government of Ghana and UNDP.


