ing money between developing countries (South-South remittances) continues to remain high.

The remittance industry has also seen the introduction of cell phone-based remittances and several pilots involving remittance-linked financial products. In the Philippines, G-Cash and SMART provide deposit, credit and money transfers through mobile phones. In Kenya, Vodafone through its subsidiary Safaricom, has launched a mobile banking service M-PESA which has more than one million clients. In India, Visa has linked up with some of the major commercial banks to extend its domestic card-to-card transfer service to mobile phones. Western Union and the GSM Association have also announced a pilot project for mobile phone remittances.

Regulations to stop money laundering and counter the financing of terrorism appear to have become a constraint to reducing remittance costs, especially for smaller remittance service providers and mobile operators dependent on correspondent banks. Many countries are now considering simpler prudential regulations for remittance service providers. Many governments are also beginning to realize that exclusivity contracts between national post offices and a single money transfer company stifles competition and in the end, hurts poor migrants and their families. It is time now for policymakers to find ways for harmonising telecom and financial services regulations.

This article draws on "Leveraging Remittances for Development" Policy Brief by Dilip Ratha, Migration Policy Institute, Washington DC, 2007 (www.migrationpolicy.org/pubs/MigDevPB_062507.pdf), and "Remittance Trends" 2007 brief (http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/BriefingNote3.pdf) issued by the Development Prospects Group, the World Bank. Dilip Ratha is Senior Economist and Manager of the Migration and Remittances Team at the Development Prospects Group of the World Bank. Thanks to Uri Dadush, Sanket Mohapatra and Sonia Plaza of the World Bank for discussions and K.M. Vijayalakshmi and Zhimei Xu for collaboration and data collection. BT

Debt–Financed Migration in the 21st Century

Illegal migration is a problem of growing scale and importance. The most conservative estimates amount to tens of millions of irregular immigrants worldwide; in the US only, this number stands at 12 million. The International Organization for Migration believes that half of all new entrants into developed economies are illegal.

According to the United Kingdom Home Department, 75% of illegal migrants use the expensive services of smugglers. Given increasing international wage differentials, unstable political circumstances and the importance of financial constraints in most source countries of migration, the demand for human smuggling services may rise further.

Migrants and their families often cannot self-finance costs that can reach or even exceed US$50,000 (estimated China-US smuggling fees) and, hence, put themselves in debt. According to surveys among illegal Chinese immigrants 90% had to borrow money to pay the fee. Smugglers and other intermediaries finance the costs of transportation, provide forged documents and assist in entering the country of destination. The debt repayment is taken out of migrants' wages in sweatshops and restaurants that are related to these intermediaries. The migrant thus provides his labor as collateral to the smuggler or the smuggler's business partners until the debt is paid back.

As long as a migrant is employed in the illegal sector, the debt-holders can enforce the contract through coercion. This is more difficult when a migrant works in the legal sector of the economy, where s/he receives some protection from the host country's legal system. Thus, migrants who move successfully to the legal sector can default on their debt payment. But, at the same time, they become visible to law enforcement agencies and bear higher risks of being deported to the source country.

Our theory of financial contracting between wealth-constrained migrants and intermediaries examines the effect of various policies on illegal immigration and finds that:

- Stricter border controls decrease overall immigration, but may result in an increase of debt-financed migration, as they may induce illegal migrants to move from self-financed migration to debt/labor contracts.
- Stricter deportation policies increase rather than decrease the flow of illegal migrants, as migrants are less likely to try moving to the legal sector of the economy and there are, therefore, less defaults on debt repayments. Financing migrants becomes more rewarding for intermediaries and, hence, that the flow of migrants financed by debt/labor contracts increases. At the same time, the net present value of migration for wealthier self-financed migrants decreases, which reduces their inflow. Migrant skill composition deteriorates, given the strong positive correlations between wealth and skills in developing countries.
- There can be complementarities between employer sanctions and deportation policies. With intensified employer inspections and sanctions, deportation policy becomes a more effective tool for decreasing migration.

What about the effect of amnesties on decisions to migrate? Since each amnesty raises expectations for future amnesties, it results in higher incentives to migrate, especially for the highly skilled. On the other hand, anticipating that immigrants may obtain legal status through amnesty, intermediaries will refuse to lend. Hence, amnesties will decrease low-skilled migration and improve the skill composition of incoming migrants.

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