CHAPTER 1.

MIGRANT REMITTANCES AND THEIR IMPACT ON DEVELOPMENT IN THE HOME ECONOMIES: THE CASE OF AFRICA

by

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Introduction

According to the latest figures from the United Nations,[1] the number of migrants throughout the world has more than doubled since 1975. At the turn of this new century it is reported to stand at around 175 million persons (including refugees), or 2.9% of the global population. Still largely from Europe in the 1950s, migration flows have undergone radical change and are now predominantly from the developing world. Heading the list of sending countries is China, with an annual net migration of 380 000 from 1995 to 2000, followed by Mexico, the Indian sub-continent (Bangladesh, India, Pakistan and Sri Lanka), Egypt, Indonesia, the Philippines, Turkey and the Maghreb (Morocco, Algeria). Although not high on the list, the countries of sub-Saharan Africa should not be overlooked: the emigration flows from West and East Africa as a share of the population put them among the areas with the highest rates of net emigration.[2] What is more, of the 16 million refugees throughout the world at the end of 2000, 9 million were to be found in Africa and 4 million in Asia.

As population movements are to some extent shaped by host-country immigration policies, it is somewhat rash to draw up migration projections for the years to come. Nevertheless Hatton and Williamson (2002), taking a long-term view, show that migration flows across the globe since 1850 are fairly well predicted by four economic and demographic indicators: income differentials between regions (or countries), the share of young people of working age (15 to 39 years) in the home and host countries, the stock of immigrants already in host countries (networks), and the incidence of poverty in the home country (poverty being synonymous with the inability to afford to migrate). On the basis of the latest United Nations demographic projections and the economic outlook

1. United Nations (2002), *International Migration Report*, New York.

2. For example, annual net emigration rates for the period 1995-2000 average 6.2 ‰ for Guinea; 5.5‰ for Burkina Faso; 4.7 ‰ for Mali and 3.4 ‰ for Lesotho.

for various parts of the world, the authors go on to conclude that migration pressure should not only remain constant, but even grow substantially over the next 20 years, particularly in Africa.

In the case of West Africa, the repercussions of this pressure to migrate are already highly visible: West African labour migration flows within the continent and to Europe have effectively swelled in recent years, in spite of the crises in some African host countries (Cameroon, Côte d'Ivoire, Gabon, Nigeria) and the closing of the Schengen borders. Far from curbing emigration, the restrictions imposed on labour immigration to western Europe, compounded by political and economic crises in the African countries that had traditionally accepted foreign labour, have led to the emergence of new destinations (southern Europe, United States), and driven international labour migrants underground (Fall, 2003). Senegal is a good illustration of this: whereas its workers once headed for France and some African countries, migration is now shifting increasingly to a range of countries with no particular geographical, historical, political or linguistic ties with Senegal. At the same time, the migrant labour recruitment areas have broadened to include the centre-west (the former groundnut-producing area) and most of the large urban centres. This evidence of swelling population movements, undoubtedly driven to some extent by inequalities between countries or regions, raises a whole series of questions and issues for debate, and an answer that has yet to be found to the question of the role of migration in development. Like the European migration flows to the United States which, in the late 19th century, clearly helped to bring about convergence in per capita GDP and real wage rates (see, in particular, Boyer *et al.*, 1993; Hatton and Williamson, 1998), is contemporary migration fostering economic development in the home countries?

The purpose of this chapter, confined to Africa, is to provide some answers to that question by looking at the contribution of migrant remittances to the development of the home economy. A key aspect of the migration issue, migrant transfers are for many countries a considerable source of external funding. They have accordingly been the focus of growing attention in recent years on the part of governmental and inter-governmental institutions and of civil society. This chapter begins by describing the scale of transfer flows to developing countries, and more specifically to Africa. It then gives a wide-ranging review of the latest research into the economic and social impact of remittances on local, regional and/or national development in the home economies. The chapter ends with a number of conclusions and recommendations.

Migrant remittances: a substantial and stable source of external funding

Volume of remittances sent to developing countries

The International Monetary Fund (IMF) provides an annual estimation of the remittances received and sent by each country, based on the balance of payments statistics published by central banks. This includes migrants' savings from wages or income, wages sent directly by employers, and welfare transfers paid directly to migrants or their families in their home countries (including pensions, retirement pensions, family allowances and healthcare expenses). However, it is confined to transfers via official/legal channels (*i.e.* financial institutions, postal services) and thus excludes the financial flows from emigration sent via informal channels (including money or goods brought home by the migrants themselves on visits to their families, money sent via intermediaries, transfers via simple bills of exchange or fax, and arrangements with traders to have goods delivered directly to the family).

Based on the IMF statistics, a World Bank (WB) report puts the volume of workers' remittances transferred worldwide via official channels in 2001 at over USD 100 billion and those received by developing countries at USD 72.3 billion, or 1.3% of their GDP (Table 1.1).[3] The latter are reported to have increased in 2002 to USD 80 billion, a far higher figure than for official development assistance, evaluated at USD 55 billion that same year. In nominal terms, Asia and Latin America head the list of continents concerned by the wealth derived from migration, as they receive two-thirds of all remittances sent via official/legal channels. But it is South Asia that heads the list in terms of remittances as a share of GDP, with a rate of 2.5% in 2001. Remittance flows have risen sharply and steadily for many years (more than doubling in volume over the past decade), to become the second source of external funding in the developing world, after foreign direct investment (FDI). For the recipient countries, they offer the advantage of being far more stable than other private capital flows (such as bank loans or portfolio investment) (Figure 1.1). They have exceeded official development assistance since 1995.

Volume of remittances to sub-Saharan Africa

In the case of sub-Saharan Africa, official transfer flows are relatively low compared with the rest of the developing world. They have been estimated at USD 4 billion, or 1.3% of GDP, in 2002. Furthermore, growth has been less sustained than that described above, with remittances to this region as a share of total remittances to developing countries falling from around 8% in 1980 to 5% in 2002. But the financial spin-offs from international migration have been substantial in a number of countries (Table 1.2). During the 1990s, they accounted for 201%, 99.1% and 48.5% of exports in Cape Verde, Lesotho and Sudan respectively, over 30% of exports in Burkina Faso, the Comoros and Egypt, and over 20% of exports in Mali and Morocco. In the same decade, the per capita figure stood at USD 205 in Cape Verde and Lesotho, USD 103 in Swaziland, over USD 70 in Morocco and Egypt, and USD 42 dollars in Botswana. It should be noted that these figures are imprecise. Like other developing countries, many African countries do not have the statistical tools to evaluate with precision the remittances sent home by workers abroad. Hence the long list of countries for which data on transfer flows are not available (see note to Table 1.2). Moreover, the share of transfers sent via informal channels (and thus not counted) is likely to be particularly high in the case of African countries, owing to the complexity and often exorbitant cost of transferring money via banks (see Box 1.1), for instance, or to the slowness and lack of reliability of the postal services.[4] The figures derived from official balance of payments statistics can therefore be expected substantially to underestimate the amount of money at stake.

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3. World Bank, *Global Development Finance,* 2003, Chapter 7, Washington.

4. Other factors influencing the choice of transfer mode include the migrant's status (legal or illegal) in the host country, and the geographical coverage of formal financial institutions in the home country. Furthermore, economic instability or excessive constraints in the home country, political crises or open conflict generally result in a drop in official transfers.

Box 1.1. Cost of an international money transfer via banks or postal services: examples from Uganda and Tanzania

The cost of an international money transfer varies with the provider and the amount to be transferred. For large amounts (over USH500 000 in the case of Uganda or TSH5 million in the case of Tanzania), the commercial banks provide the cheapest service. On the other hand, the postal service is cheaper for very small transfers.

Cost of an international money transfer to/from Uganda
(as a % of nominal value transferred)

Provider	Amount transferred (in USH)								
	10 000	50 000	100 000	500 000	1 000 000	2 000 000	5 000 000	10 000 000	20 000 000
Western Union	170	34	17	9.6	6	4.8	4.1	4	4
Commercial banks	200	40	20	4	2	1	0.6	0.6	0.6
EMS	35	11	8	6.4	6.2	6.1	6	6	6
Postal order	15	7	6	5.2	5.1	5.1	5	5	5
MoneyGram	211.2	52.8	35.2	7	5.3	5.3	5.3	4.4	3.2

Note: USH = Ugandan shillings; USH 1 760 = USD 1.
EMS: Expedited Mail Service.
Western Union and MoneyGram are non-bank financial institutions specialising in international money transfers. Another feature of these institutions, in addition to their speed and reliability, is that they do not provide any services other than receiving and sending money.
Source: Sander *et al.* (2001).

Cost of an international money transfer to/from Tanzania
(as a % of nominal value transferred)

Provider	Amount transferred (in TSH)								
	10 000	50 000	100 000	200 000	500 000	1 000 000	2 000 000	5 000 000	10 000 000
Western Union	90	18	14	9.5	6.6	5.2	4.6	4.2	4
Commercial banks	100	20	10	5	5	5.0	5.0	0.1	0.1
EMS	30	12	7	5	5.4	3.2	2.1	1.4	1.2
Postal order	20	8	6	6	6	6	6	6	6
MoneyGram	97.8	19.6	12.2	8.2	6.5	5.7	4.1	4.1	3.3

Note: TSH = Tanzanian schillings; TSH 815 = USD 1.
Source: Sander *et al.* (2001).

Some one-off studies based on *ad hoc* surveys illustrate this. With regard to Sudan, Choucri (1986, quoted by Puri and Ritzema, 1999) estimates that 85% of remittances received by the country in 1984 were sent via informal channels. With regard to Ghana, Anarfi *et al.* (2000) estimate that 95% of transfers are made in kind. Finally, according to a survey of Malian and Senegalese immigrants residing in France in 1997, over half of the remittances sent back to the home country were sent via channels other than those set up by banking and postal institutions (Box 1.2). For Senegal, Tall (2001) reaches the same figure.

Box 1.2. How Malians and Senegalese immigrants in France transfer their savings

Who sends what?

Whether from Mali or Senegal, immigrants living in France send roughly the same amount home, the annual average being FF 9 200 (EUR 1 400) for Malians and FF 8 800 (EUR 1 340) for the Senegalese.

How?

Among Malian and Senegalese immigrants, the two most commonly used modes of transfer are, first, the services of an intermediary visiting the home country, and second, postal orders. They account for 56% and 15%, respectively, of the total amount transferred. Over half of transfers to the home country go through channels other than those set up by banking and postal institutions. While these two methods (intermediaries and postal orders) are the most common in terms of the number of transfers or the number of individuals making the transfers, the average amount varies substantially with the mode of transfer. Bank transfers are used for larger amounts (an average of FF 12 908 or EUR 1 968 per transfer) and postal orders for smaller amounts (FF 1 596 or EUR 43 per order). The unreliable postal networks in both countries, a problem often raised in survey interviews, explain why smaller amounts are transferred in this way: it is a question of risk limitation. Conversely, there appears to be great confidence in international bank-transfer systems, given the average amount transferred via that channel. Allowing for the substantial difference in average amounts transferred by each method, postal orders account for 15% of the total amount transferred while bank transfers, although not numerous, capture some 14% of all transfers. With its orders and transfers, the banking system captures some 19% of total transfers. Postal systems, often perceived as the mode of transfer preferred by immigrants, actually rank second to commercial banks in terms of the amount transferred.

A breakdown by mode of transfer of the remittances sent home by Malian and Senegalese immigrants contradicts the traditional picture of such practices. While it is not at all surprising that over half of all the amounts transferred do not go through official banking and postal channels, the role played by commercial banks compared with postal services in transfers as a whole may come as a surprise. But for Malian and Senegalese immigrants, the best way of sending money home is still through an intermediary.

Source: Blion et Verrière (1998)

Household surveys can be another source of data with which to refine remittance statistics. Using an original survey carried out in the Kayes area, Mali, Gubert (2002) manages to estimate for example, the proportion of migrants sending remittances, and the average amount remitted per migrant, based on details given by their relatives back in the home country. She estimates the average remittance to Mali from France per emigrant in 1996 to be around CFAF 775 000 (EUR1 180) (Table 1.3).[5] Average remittances from other host countries are markedly lower. Emigrants living in Gabon sent an average of CFAF 115 000 (EUR 175) back to their families, those in other Central African economies sent CFAF 67 000 (EUR102) and those in West Africa less than CFAF 30 000 (EUR 46). Countries in the rest of the world category (which includes Libya and Saudi Arabia) are, after France, the most profitable destinations in terms of remittance flows. On the basis of these survey findings, and bearing in mind that some 120 000 Malian

5. Sampling bias in favour of legal immigrants may explain why the average remittance amount obtained by Blion and Verrière (1998) (Box 1.2) is higher than the figure obtained here. Furthermore, the amounts declared by migrants surveyed in France include transfers sent to payees outside the family. According to the survey, remittances sent to the family account for only 75% of the total amount of money transferred. Consequently, out of an average of EUR 1 400, only EUR 1 125 actually go to the migrant's family. This second figure is much closer to that obtained by Gubert (*op. cit*).

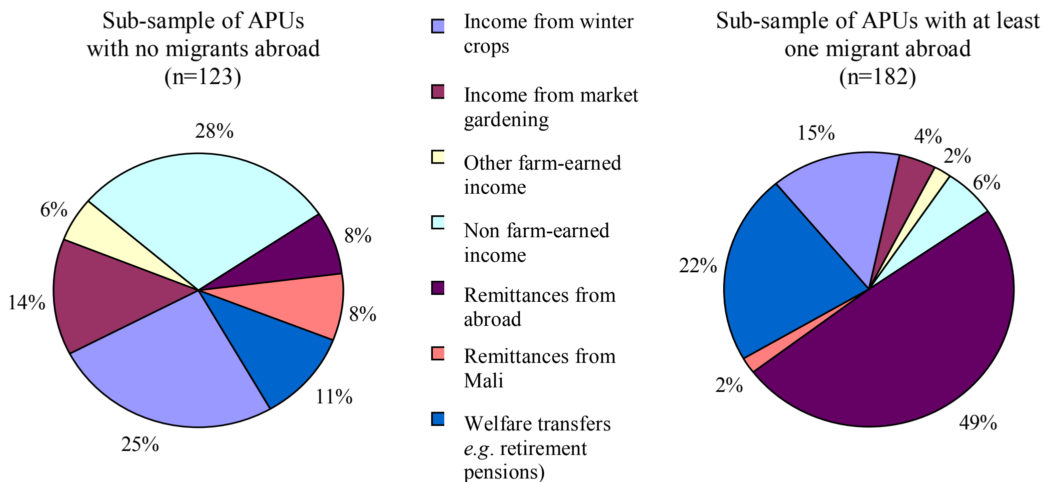
emigrants live in France,[6] an estimated CFAF 93 billion (120 000 x 775 000) were sent in remittances from France to Mali in 1996 alone. For comparison purposes, the estimated volume of remittances sent to Mali as published in the official statistics of the Central Bank of West African States (BCEAO) was CFAF 46 billion that same year. Yet this figure includes remittances not just from France, but from all over the world. Although the case of Mali cannot be extrapolated to the rest of Africa, these few figures reveal the many limitations of transfer statistics based on the balance of payments. They legitimate direct survey methods that seek information on remittance and savings practices in immigrant population groups, or household surveys containing detailed questions on transfers received and sent, the form they take (money or kind), where they come from[7] and how they are sent.

Household surveys are also useful in that they show remittances as a share of the recipient's income (see Box 1.3).

Box 1.3. Remittances as a share of household income: an example of the Kayes area, Mali

Regardless of origin, migrant remittances account for 16% of the total income of agricultural production units (APU)(*) with no migrants. The figure rises to 51% on farms with members that have emigrated. When welfare transfers linked to retirement pensions are included, three-quarters of the income of APUs with migrant members are found to come from abroad.

APU income structure by participation in international migration, 1996



Source: Gubert (2000).

The share of income derived from migration accounts for the relatively high standard of living on some farms in the sample. The annual average per capita income of APUs participating in international migration is almost 1.6 higher than on other farms.

6. According to the French Ministry of the Interior statistics, 41 000 Malians hold residence permits. To this should be added the illegal immigrants, estimated at more than double that figure.

7. Unfortunately, a large number of national household surveys do not enable a distinction to be made between remittance flows from within the country and remittance flows from abroad.

Annual per capita income of APUs participating in international migration, 1996

Source	Average per capita income	
	APU with no migrants abroad (n=123)	APU with migrants abroad (n=182)
Farm-earned Income	30 400	22 139
Non-farm-earned income	19 904	6 214
Income from migration*	10 415	53 810
Welfare transfers	7 227	23 714
Total	67 946	105 878

*APU is the statistical unit used for survey purposes.
Source: Gubert (2000).

Impact of remittances on development in the country of origin: a review of the literature

While it is commonly accepted that there are close linkages between development and international migration, the impact that migration and the ensuing remittance flows have on economies of origin is still a widely-debated issue. A review of the literature shows that it would be idealistic to believe that the financial transfers derived from emigration automatically trigger development. Official flows alone are substantial enough to have a considerable impact on a country's balance of payments and help to reduce its domestic savings shortfall. However, while remittances may play a beneficial role in funding imports and investment, they are frequently criticised for leaving countries dependent and hence vulnerable. The arguments generally put forward are manifold: remittances can reportedly push up the demand for imports to the detriment of locally produced goods, for instance, and do not have a multiplying effect on the economy; they are said to be a source of inflation and hence real exchange-rate appreciation in countries lacking supply-side flexibility: Dutch disease; and they are accused of encouraging rent-seeking.

Theoretically, the expected repercussions depend largely on the profile of would-be emigrants, the size of migration flows and the pre-remittance income levels of households participating in migration. The impact of remittances is intrinsically linked to their allocation and more specifically, to the breakdown between consumption and investment. When migration is undertaken in conditions of great poverty, remittances are spent largely on daily consumption, hence the criticism that they make very little contribution to local development. But when migration is a response to credit market failures, remittances enable capital investment and may thereby promote output growth.

Impact of migration and remittances: academic studies[8]

Until the late 1980s, the literature focused on the short-term impact of migration and remittances on relative prices and welfare in the home countries and took as a framework for analysis the Australian (or dependent economy) model developed by Salter and Swan. Rivera-Batiz (1982) shows that, without remittances, emigration by part of the labour force reduces the welfare of those left behind. The argument is that migration leads to a shrinkage in output that is greater for non-tradeable goods (more labour intensive) than for tradeable goods. This pushes up the relative price of non-tradeable goods and accordingly brings about a deterioration in the welfare of non-migrants in the home country. On the other hand, Djajic (1986) shows that migration may improve the welfare of non-emigrants, if remittances are taken into account. By once again providing scope for the exchange of tradeable and non-tradeable goods within the country, remittances improve the welfare of those who stay behind, including those who receive no remittances because no members of their family have emigrated. Consequently, the net effect of migration is ambiguous and depends on the relative importance of the shrinkage effect in the domestic market and the feedback effect of remittances (Figure 1.2).

In the late 1980s and early 1990s, short-term impact studies on migration were gradually replaced by long-term work aimed at identifying channels via which migration and remittances might be beneficial for, or on the contrary detrimental to, growth in the home economies. Initially, the terms of the debate focused solely on the use made of remittances. Several authors showed that a substantial share of these remittances went towards repaying debts incurred by migrants at the time of departure or towards daily expenditure (on food, shelter, clothing, healthcare, and so on), and thus concluded that remittances had only a limited impact on development. Some also put forward the idea that remittances could hamper development by keeping households at their pre-migration income levels, while reducing their labour supply. Then, some authors (particularly Stark, 1978, 1980) endeavoured to give a more optimistic view of remittances by showing for instance, that imperfect rural credit and labour markets provided households with the resources required to innovate or merely cover the full costs of the agricultural production cycle (*e.g.* purchasing seed and inputs, hiring equipment). Viewed from this angle, remittances contribute to productivity growth and their marginal impact on household income may be greater than unity.

Next came studies analysing the impact of remittances on home-country growth via their impact on income inequalities. Several authors (Stark, Taylor and Yitzhaki, 1986, 1988; Taylor, 1992; Taylor and Wyatt, 1996) put forward the idea that remittances reduced income inequalities in the migrant's community of origin and helped to ease household liquidity constraints, thereby promoting investment in physical and human capital. Although economists first began looking into the causality link between inequalities and growth in the early 1990s (see in particular Banerjee and Newman, 1993; Galor and Zeira, 1993), only recently has the long-term impact of remittances been analysed as part of an endogenous growth model (see for instance, Mesnard, 2001; Docquier and Rapoport, 2003a). Mesnard (2001) shows, for example that 26% of Tunisian workers who returned home for good between 1974 and 1986 set up businesses with their savings upon their return. On the basis of this empirical evidence, the author proposes a successive generation model to compare trends in an economy's distribution of wealth, depending on how open its borders are to labour emigration. The model shows

8. For a full review of the literature serving as a basis for this section, see Docquier and Rapoport (2003b).

that when there are indivisibilities and imperfections on the capital market, temporary labour emigration and the ensuing accumulation of capital disrupts the distribution of wealth in the home economy at a given time; this is perpetuated via inter-generational transfer and may put the economy onto a path to prosperity. Emigration, even when confined to a small number of workers, can thus take a developing country from stagnation to growth. A similar type of outcome is obtained when liquidity constraints curb household investment in human capital.

Empirical examples

The scale of the academic debate, outlined above, on the links between migration and economic development in the home countries contrasts with the small number of empirical studies on the subject. This stems mainly from the lack of reliable, harmonised data on several of the relevant variables (*e.g.* emigration rate by country or by skill, amounts remitted) and the absence of long time-series, which are vital if use is to be made of the latest macroeconometric tools.[9] Consequently, the only empirical literature to be found is confined largely to a few case-studies based on microeconomic data. The list of studies applying to Africa is even shorter and sheds insufficient light on the role played by remittances in the development of the countries that receive them.[10]

Migration, remittances and poverty

A few studies using a range of methodological options have attempted to assess the impact of remittances on poverty.

Using cross-cutting data on 74 low or middle-income developing countries, Adams and Page (2003) show for instance, that a 10% rise in the share of the population migrating to other countries brings about a 1.9% fall in the share of people living on less than USD 1 a day. The impact that migration has on poverty however varies with the country group: it is not significant in eastern Asia or Latin America, but the reverse is true in all the other developing regions, including the African continent.

Other work on this topic is based on national household surveys (Gustafsson and Makonnen, 1992; Lachaud, 1999; Leliveld, 1997). The most convincing work to date is by Lachaud (1999), based on data from a national priority survey conducted in Burkina Faso in 1994/1995.[11] Beginning with a description of the data, the author shows that household living standards in Burkina Faso stem from four main sources of income: farm-earned income (43%), non-farm-earned income (27.8%), transfers (mostly national and international remittances) (18.6%), and wages (10.6%). The author also shows that 32.4% of rural households and 27.7% of urban households receive remittances which, when broken down by origin (national or international), vary markedly with the milieu, living standards and occupational/demographic profile of the head of household. The

9. Tests for variable stationarity and co-integration are not very reliable when conducted on a small number of observations.

10. For microeconomic work applying to countries other than Africa, readers should refer to Cox-Edwards and Ureta (2003) (on the links between migration remittances and educational pathways); Massey and Parrado (1998); Woodruff and Zenteno (2001), and Dustmann and Kirchkamp (2002) (on the links between migration, remittances and enterprise creation); Adams (1998) and Rozelle *et al.* (1999) (on the links between migration, remittances and rural development).

11. Lachaud (2000) also highlights the impact that private transfers by Comoros emigrants living in France have on poverty, particularly on the Island of Grande Comore.

share of remittances from foreign countries (in particular Côte d'Ivoire) is prominent in households where the head is a farmer and – to a lesser extent – inactive, and also in rural households, whereas in most of the other socio-economic groups, remittances come largely from within the country. Confining the analysis to households that receive remittances, the author finds that the incidence of remittances is greater in absolute terms and smaller in relative terms, depending on the household's living standards. Following this descriptive analysis, Lachaud addresses the impact of remittances on poverty, first by considering these financial flows as exogenous transfers of income, then as potential substitutes for locally generated household earnings. The principle behind this second method consists in replacing remittances by the value of the income accruing to migrants and other members of the household without migration. In the first case remittances, considered to be exogenous, tend to have an equalising effect on incomes and a substantial impact on household welfare, particularly in rural areas. In the second case (*i.e.* after working out the living standards that recipient households would have without remittances), analysis shows that remittances help to reduce the incidence of rural poverty by 7.2 percentage points and urban poverty by 3.2 percentage points. However, the reduction in the poverty ratio is statistically significant only for subsistence farmers and the inactive in rural areas, and for the traditionally more vulnerable socio-economic groups (unemployed, self-employed) in urban areas. The author does qualify these findings by specifying that a country heavily dependent on remittances from abroad is still inherently fragile. The relative importance of remittances in household incomes in Burkina Faso does make living standards there subject to the vagaries of the economy in neighbouring countries. Recent events in Côte d'Ivoire and the growing incidence of poverty in Burkina Faso as a result are an illustration of this (Lachaud, 2004).

The vicious circle of remittance dependency is also highlighted by Gustafsson and Makonnen (1992) and Leliveld (1997). The former base their work on data from a survey carried out in 1986/1987 among 7 680 households to assess how the return of migrants and cessation of remittances would affect the poverty profile of Lesotho, a country with high out-migration of male labour to South Africa. Pointing out that remittances were the main source of income for 35% of households in the sample, the authors simulate the impact on poverty if remittances were to cease, simply by subtracting the remitted amounts from household consumption, and increasing household size by the number of migrant members. They conclude that household consumption per capita would decline by an average of 40%, thereby increasing the incidence of poverty by 14 percentage points. Using data collected in 1990 from 195 rural households, Leliveld (1997) attempts to assess the extent to which household living standards in Swaziland would deteriorate if there were fewer opportunities to emigrate to South Africa. He shows that here too, migrant transfers form a large share of the household's disposable income and that, in the short term, many would be unable to meet their basic food needs if remittances were to cease and migrants were unable to find work upon their return.

These studies are admittedly based on some very restrictive hypotheses[12] and rather simplistic simulations, since most of them take into account only the direct impact of remittances. They accordingly leave out all the indirect effects (both positive and negative) that remittances can have on the other sources of household income, and overlook the multiplying effect that remittance-generated expenditure can have on the

12. Gustafsson and Makonnen (1992) and Leliveld (1997) assume, for instance, that migrants cease all contributions to household income upon their return.

income of households that do not participate in migration. Yet this multiplying effect may be substantial when household demand is for labour-intensive goods or services.[13] Nevertheless, the studies are a useful demonstration that, while it is not necessarily the poorest who emigrate, basically because they cannot afford to, remittances are a relatively efficient means of combating transitory poverty and vulnerability and act as insurance in environments that are often highly unstable from a meteorological, political and economic standpoint.

Migration, remittances and risk diversification

The function of remittances as insurance, mentioned above and comprehensively described by Stark (1978), and Stark and Levhari (1982), has been highlighted in several studies applying to Africa (Lucas and Stark, 1985; Stark and Lucas, 1988; Drèze and Sen, 1989; Schrieder and Knerr, 2000; Gubert, 2002).[14]

Using a national study conducted in Botswana among 3 179 people in 1978-1979, Lucas and Stark (1985) and Stark and Lucas (1988) show that periods of drought are accompanied by an increase in the remittances received by households with assets that are heavily dependent on rainfall (livestock, land). According to the authors, this is evidence of risk diversification through migration. Drèze and Sen (1989) show how many rural households in Kenya were saved from the 1984 famine by remittances from relatives or friends, particularly those living in urban areas.

More recently, a study by Schrieder and Knerr (2000) looks at the case of Cameroon using data from a repeat household survey conducted in 1991-1992 in two regions characterised by a serious lack of food security. The paper begins with a description of the data showing that remittances account for 26% of per capita income in the 140 households in the sample and that they are highly seasonal (the average amount remitted during the wet season being half that sent in the dry season). The subsequent econometric study however shows migration and the remittances it generates to be an imperfect insurance mechanism.

Finally, the study by Gubert (2002) focuses on the remittance behaviour of a sample of migrants from the Kayes area in Mali. Its aim is to look at the extent to which remittances provide recipient households with protection against the risks they have to face, based on an econometric estimation of a transfer function. The test introduces three variables into the regression, measured over the 12-month period preceding the survey: per capita healthcare expenditure by the household, the number of deceased persons, and a farm-income shock variable estimated from the data. The justification for these three variables is that they take into account the various types of risk facing households: the risk of illness or death, which require unplanned expenditure (*e.g.* consulting doctors, purchasing drugs, organising funerals) and may affect household income (*e.g.* when invalids are unable to undertake farm work or sow crops at the right time), and the risks linked to farming. An analysis of the estimations show a positive and statistically

13. In the case of the Kayes region, Mali, many local activities are established and sustained with the money from migration (Gubert, 2003). One example is market gardening, which would probably not have become so popular if smallholders had not been sure of being able to sell their produce to households receiving remittances. The construction industry also provides numerous jobs and undeniably stimulates the local labour market, to the benefit of households that do not directly participate in migration.

14. For case studies on countries other than in Africa, see Rosenzweig and Stark (1989), de la Briere *et al.* (2002), and Cox *et al.* (1998)

significant correlation between the shocks suffered by households and the amount they receive in remittances. This is only to be expected, assuming that families send some of their members away on migration as an insurance against risk. It also shows that the amounts remitted are larger when they come from close relatives, suggesting that mutual ties make relatives more responsible and more reliable insurers.

Migration, collective remittances and social development

Migrant associations in host countries, known in French-speaking countries as "*Organisations de solidarité internationale issues des migrations*" (OSIM), also help to improve the living standards of those who stay behind by playing an active role in setting up and financing development projects in the villages back home. According to a recent study (Daum, 2000), there are reported to be some 1 000 OSIMs in France, one-third of them for immigrants from countries in the Senegal River Valley (Mali, Mauritania, Senegal) and another third for those from elsewhere in sub-Saharan Africa. Also high on the list are the 101 OSIMs for migrants from the Indian Ocean (Comoros and Madagascar). Initially confining their work to more prestigious projects such as the construction of mosques, these associations have gradually expanded to cover every aspect of daily life in the villages with projects ranging from hydraulics to healthcare, and from basic education to cultural exchanges (Box 1.4). A few figures from studies that have unfortunately not been updated give an idea of the scale of this phenomenon. In the administrative district of Yelimane, north of Kayes, Mali, the development association *Association pour le développement du cercle de Yélimané en France* (ADCYF) in 1996 counted among its projects 180 wells and boreholes, 70 schools, 11 dispensaries and 19 co-operatives, almost entirely funded by migrant associations in France. In monetary terms, these projects represent a total of some CFAF 7 billion (ADCYF, 1996). In the Kayes area, 64% of all village infrastructure is attributed to migrants (Libercier and Schneider, 1996). A further study in 2000 specifies that French-based associations of Senegalese immigrants from the Senegal River Valley have on average 132 members whose contributions make for some EUR 10 000 in annual investment in the villages back home (Champetier and Drevet, 2000). Today, many of the OSIMs are still contributing towards the operating costs of the infrastructure they have built. Their members' contributions are used to pay healthcare and teaching staff, for instance, and to stock dispensaries with drugs and vaccines.

Therefore, while there appears to be a consensus that remittances improve the living standards of thousands of households in the short term, particularly in Africa, the question as to whether migration and remittances contribute to endogenous development remains open. The fact that remittances ease the budget constraints and improve the welfare of urban and rural households does not necessarily mean that they are drivers for development. As Ellerman (2003) points out, there can only be endogenous development in a community heavily dependent on migrant remittances if this financial windfall fosters the emergence of sustainable productive activities irrespective of migration. At the household level, it should encourage income diversification or investment in physical or human capital, so that families can become increasingly less dependent on migration rent and economically more independent. In theory, the existence of tight liquidity constraints owing to imperfectly functioning credit markets in many developing regions should encourage this productive use of remittances (Stark, 1980). How true is this in practice?

Box 1.4. Example of an OSIM or migrants' association: Gidimaxa Jikké

Gidimaxa Jikké was set up in 1988 and has 3 000 members, all Malians from the district of Aourou in the Kayes area. The Aourou district numbers 24 villages and 45 000 inhabitants who practise farming (growing grain crops such as millet, sorghum, maize and rice), during the two to four months of the wet season, but cover only 75 or 80% of the district's consumption requirements. In terms of community infrastructure, the district is one of the least well-endowed in the area.

Below is a list of the association's projects and programmes:

- Water supply: wells have been dug in 5 villages and filtering dykes built for flood protection in 4 other villages.
- Healthcare: regular vaccination campaigns, in particular for childhood illnesses such as measles, whooping cough and polio; funding for 12 community healthcare centres; emergency drug shipments following epidemics of meningitis and cholera.
- Education, training and literacy: regular sessions are organised and financed by the association to help train the population in project-management techniques enabling them to define and analyse their priorities and launch the necessary initiatives; some 120 women have been trained in dyeing techniques and soap and cream-making; literacy classes have been set up in several villages, with the purchase of 430 textbooks. The teaching staff in these centres is trained through a partnership with the American NGO Paro-Mali.
- Micro-projects: this field has benefited considerably from the success of the education, training and literacy programmes. The projects focus mainly on market gardening (the association covers all or some of the cost of large amounts of tomato, onion, lettuce and other seed), crop storage and pond creation.
- Opening up the area: many paved fords have been built, making it possible to cross rivers and backwaters during the wet season.

Source: CFSI (2003).

Migration, remittances and rural development

A review of the literature on this subject reveals widely diverging situations. In the case of Botswana, Lesotho, Malawi, Mozambique and the South African homelands, characterised by substantial out-migration to the mining areas of South Africa, Lucas (1987) shows that the absence of part of the labour force led to a decline in agricultural output in the short term, but that migrant remittances helped to increase productivity and the accumulation of livestock in the long term (except in Lesotho). However, the author is unable to say whether the observed increase in agricultural output stems from a more intensive use of inputs, the purchase of new equipment or the adoption of production techniques with greater risks but also higher yields. Nor can the author say whether these gains in productivity can offset the loss of labour through migration.

Another study, this time confined to Lesotho, suggests that remittances from South Africa enable the recipient households to respond more rapidly to agricultural constraints than households with no migrants. This explains why technical inefficiency, defined as the inability to obtain maximal output from a given set of inputs, is lower in households that receive remittances than in those that do not (Mochebelele and Winter-Nelson, 2000).

In the case of Kenya, the study by Rempel and Lobdell (1978) reaches the conclusion that the remittances generated by internal migration have little impact on development in the home regions. This is contested by Collier and Lal (1984), who show that income from farming (excluding livestock) in Kenyan households is a positive function of non-farm-earned income, all other things being equal. Both studies conclude that urban to rural remittances, which were the main source of non-farm-earned income in the households in their sample, did help to reduce rural poverty during the 1960s and 1970s. A more recent study carried out in the west of the country (rather than the centre studied by Collier and Lal) shows migration to have been a differentiating factor between households in the long term, owing to the beneficial impact of remittances not on farm incomes but on the accumulation of human capital, giving the following generation access to well-paid jobs in the urban labour market (Francis and Hoddinott, 1993).

One limitation of the research reviewed above however is that it proposes an assessment of the impact of remittances, without referring to underlying motives. In other words, its analysis of the impact of remittances is disconnected from that of their determinants, even though in all likelihood the latter affect the former. Two recent studies are an exception here, namely Azam and Gubert (2002) on the Kayes area in Mali, and Chami *et al.* (2003), which is also distinctive in addressing the impact of remittances on growth from the macroeconomic angle, based on a sample group of 113 countries over the period 1970-1998.

The paper by Azam and Gubert (2002) is based on the *a priori* paradoxical observation that family farms receiving remittances, in spite of having more capital and labour, achieve significantly lower yields than farms that do not receive remittances, without this being clearly attributable to differences in soil quality, cropping techniques or other factors (Box 1.5). Backed up by evidence on the ground, the authors opt for the explanation that the insurance function of remittances, while substantially enhancing the welfare of the families that receive them, also generates rent-seeking behaviour on the part of those families. Assuming that the insurance mechanism is such that migrants send remittances home whenever their families are no longer sure of having access to enough food, and that the effort put in by families cannot be observed by the migrants, the authors show that families have an incentive to cheat by putting in less effort and relying on migrants for their livelihood.

This moral hazard hypothesis is also found in Chami *et al.* (2003), but has been tested on a sample group of 113 countries over the period 1970-1998. The authors estimate a growth equation and introduce remittances as a share of GDP, along with the traditional determinants of growth. Whatever the estimator, remittances are found to have a significantly negative effect on economic growth.

Apart from these few studies based on localised samples, the main criticism levelled by a host of papers and reports from local development operators is that migrant-driven projects are non-productive.[15] The few productive investment projects they do finance are generally in urban areas and in sectors most likely to generate income (*e.g.* real estate, transport or the hotel business).[16] In rural areas, most projects are abandoned before they

15. For instance, fewer than 10% OSIM (migrants' association) projects fall into the category of private or collective economic initiatives (*e.g.* supporting craft activities, establishing co-operatives) (Daum, 2000).

16. Most of the large hotels in Ouagadougou (Burkina Faso), for instance, are owned by people who have spent a long time abroad.

have time to generate any notable spill-over effects on the village economy. The few that actually last are those that facilitate the household distribution of consumer goods (*e.g.* general stores and grain banks), or provide support for the purchase of farming equipment. Of the several possible explanations here, the main ones relate primarily to the physical, economic and/or institutional environment. In rural areas, particularly poor weather conditions and inadequate or inexistent road infrastructure are commonly factors that drive small farmers out of agriculture and offer no incentive to reinvest migrants' remittances in the local economy. Owing to the price of goods and inputs, the type of technology available and the conditions for market entry, investment does not always appear to be economically efficient. Migrants accordingly prefer projects in areas that are not economically productive, *i.e.* those traditionally covered by the public sector.

Other impacts of migration and remittances

The empirical work presented above describes the mechanisms relating to short-term effects only. From a longer-term perspective, putting remittances to uses that are not directly productive may strongly impact on the mainstays of development such as health, education, culture or the environment. By shielding households from transitory poverty, for instance, which has been shown to be one reason for dropping out of school (see, in particular, Sawada, 2003), remittances may eventually have a substantial impact on the accumulation of human capital and hence on growth. Some recent studies, regrettably confined to countries in Latin America or Asia, support this.[17] Similarly, by offsetting the lack of health insurance schemes and the inadequacy of medical infrastructure, remittances help to improve public health and, ultimately, the quality of the labour force. This impact is very hard to measure in quantitative terms however and remains an area of research that has yet to be explored. In a completely different vein, Guilmoto and Sandron (2003) note that by disrupting major institutions such as the relations between gender, generations and social class, emigration and remittances may be a factor of social change in the home regions. More specifically, they may be part of a trend that challenges the principle of gerontocracy and the inherited inequalities of social status that often lie behind the emergence or persistence of some forms of poverty. A study in Egypt[18] shows, for instance, that migrant's wives are taking on important new financial, productive and supervisory responsibilities, and managing to break out of the traditional pattern of production/consumption centred around the extended family. Some are investing in the family farm, but most prefer to invest the remittances in their non-farm activities.

17. Hanson (2002) uses census data on the population of Mexico in 2000 to test the hypothesis of a link between migration and investment in human capital. Econometric test findings suggest that children from families with one or more migrant members complete between 0.7 and 1.6 more years of schooling than those from families with no migrants. Furthermore, the impact of migration on schooling is more noticeable among girls than boys and increases with age. Using the findings of a household survey in El Salvador covering 14 286 individuals in the 6-24 age group, Cox-Edwards and Ureta (2003) show that migrant remittances markedly reduce the likelihood of dropping out of school. In urban areas, the estimated effect is tenfold that of other income sources. With regard to the Philippines, Yang (2003) shows that an increase in remittances leads to a marked increase in the proportion of people in higher education in the 17-21 age group. Schooling also increases in the 10-16 age group, but less sharply.

18. Palmer (1985), cited in Roca (1993), p. 5.

Box 1.5. Migration, remittances and farming: the example of the Kayes area

Although production techniques have clearly been modernised, the situation among households participating in migration is characterised by stagnating or even declining output, without this being really attributable to a shortage of labour. The substantial monetary income derived from migration means that men work less on the farm, which in turn leads to lower output per cultivator and hence far less grain self–sufficiency than in other households.

Farm tools and family labour, by migration status

	Overall (n=303)	Households without migrants (n=81)	Households with migrants (n=222)	z(*)	P>|z|
% of households owning:					
a plough	19	15	20%	-1.07	0.28
a hoe	50	30	58	-4.46	0
a cart	45	25	53	-4.46	0
a sower	13	9	15	-1.42	0.16
Household labour:					
No. of men	4	3	4.4	-4.24	0
No. of women	5.5	3.4	6.3	-6.21	0
No. of children	1	0.7	1.1	-1.97	0.05

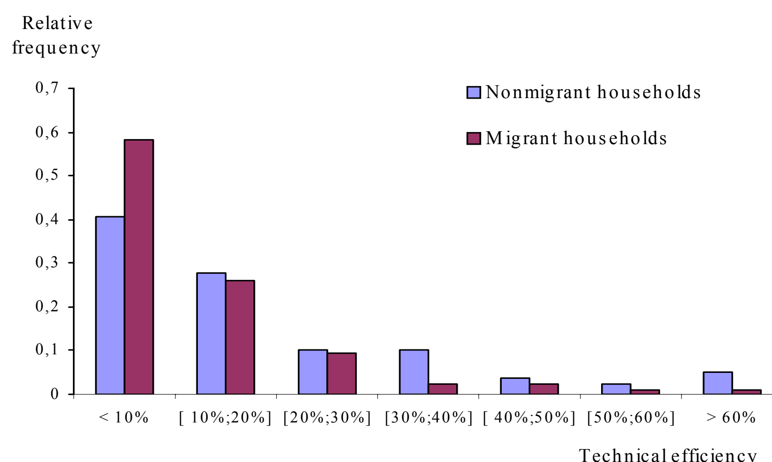
*Mean comparison test.
Source: Azam and Gubert (2002).

Value of crop output, by migration status (CFAF 1 000)

	Overall (n=303)	Households without migrants (n=81)	Households with migrants (n=222)	t(*)	P>|t|
Output, 1995	435.8	303.9	484.0	-4.15	0.00
Output, 1996	365.7	311.3	385.6	-1.85	0.07
Output per cultivator, 1995	45.2	46.3	44.9	0.37	0.71
Output per cultivator, 1996	42.9	54.4	38.07	3.28	0.00

*Mean comparison test.
Source: Azam and Gubert (2002).

Breakdown of family production units by technical efficiency and migration status



Conclusions and recommendations

The remittances that migrant workers send back to their home countries are the main source of external funding for developing countries, along with foreign direct investment. The lack of full and reliable data on the amounts involved makes it extremely problematic to draw any definitive conclusions about their beneficial impact on development. Nevertheless, a summary of leading studies in this area shows that there is a relative consensus on their role as welfare safety-nets. As such, remittances help to bring about marked improvements in the living standards of those who stay behind, and are often better at combating transitory poverty than the external financial flows associated with development assistance, because they are more closely targeted. Such windfalls alone however cannot create the right conditions for genuine development, and they are often criticised for their low impact on the structural causes of poverty.

A number of constraints help to explain why migrant remittances do not generate more economic development. The first is that the environment is generally not favourable or even hostile to investment. However difficult access to credit in the home country, the absence of structures to support and assist enterprise creation, the problems involved in managing at a distance, a lack of confidence in the intermediaries in charge of monitoring investment and a broader distrust of administrative structures in the home country, are all factors commonly cited as reasons for remittances being put to uses that are not directly productive.[19]

This situation prompted the many players concerned in some way by the issue to draw up a number of recommendations aimed at increasing the impact of remittances on development. The purpose was twofold: 1) to stimulate migrants' savings and remittances by improving the way savings could be transferred to home countries, and 2) to direct migrants' savings and remittances towards productive projects. These recommendations have given rise to several schemes which can now be said, with hindsight, to have had very mixed results, to say the least.[20] Without listing them in full, the schemes include banking products such as savings accounts specially tailored to immigrant clients,[21] or support and assistance programmes for migrant entrepreneurs. The migration and economic investment scheme set up in 2001 by the association *Programme Solidarité Eau* or "Water Solidarity Migrants" (PS-Eau) assists with the creation of enterprises doing business between France and Mali, or between France and Senegal.

At the same time, initiatives have been launched by authorities in the home countries to encourage migrants to invest there and ensure that remittances are more efficiently allocated. Some offer tax relief and/or customs-duty waivers to promote new activities that create jobs. For a specific period, the Sudanese government, for instance, offered special exchange rates for migrants as an incentive to send their remittances through official channels. This was accompanied by duty waivers of up to USD 14 000 to facilitate the import of capital goods by the holders of bank accounts credited with

19. In Mali, civil servants with the power to issue (or refuse) official permits for the building of infrastructure with the collective and association-based savings of migrants sought for a long time to misappropriate migrant remittances.

20. For a recent review of the leading schemes, see the 2003 study by the working party "*Valorisation de l'épargne des migrants*" (Developing migrant savings), bringing together FORIM, FINANSOL and CFSI, at: http://www.pseau.org/outils/biblio/ouvrages/cfsi_valarisation_economique _epargne _ migrants.pdf

21. For instance the savings plan and the savings account for returning emigrants (*Plan Épargne Retour* and *Compte Épargne Retour*) available at the *Banque de l'Habitat* in Senegal.

remittances from abroad. Ghana is another of the African countries to have introduced similar initiatives. Another scheme consists in increasing the capital leverage of remittances via national or interstate co-financing and support programmes. PRA-OSIM is one such example. Launched in partnership with the French Ministry of Foreign Affairs, together with the Catholic committee against hunger and for development (CCFD), and various OSIMs, this is an experimental programme that supports and co-finances local development projects run by OSIMs. To obtain co-financing, projects must focus on one of the following areas: health, social development, youth and sport, water resources (hydraulics, purification, the environment), education and vocational training, economic development and income-generating activities, local development, culture or support for capacity-building in civil society (including access to legal and human rights).

While many of the initiatives under way are undeniably helping to ease some of the constraints weighing upon migrants, one in particular remains and is probably behind the mixed achievements by the initiatives launched to date, namely, the need to manage development projects at a distance. The closing down of borders in several of the countries that had traditionally accepted immigrants, particularly in Europe, and the impossibility of returning there in the future, are both strong disincentives for foreign workers to make a tentative return home, and they consequently tend to settle permanently in the host country. The outcome of French policies since 1977, offering immigrants incentives to return home, bears witness to this: in spite of the financial support available, the offer has never been taken up by more than a very small minority of immigrants who were planning to return anyway, or had almost reached retirement age. Most migrants wishing to invest in their home countries are accordingly obliged to put third parties in charge of monitoring their investments. But many are reluctant to hand over the management of their projects to people in whom they place a limited amount of confidence. The evidence of rent-seeking behaviour on the part of remittance recipients proves that this attitude is to some extent warranted, as it suggests conflicting aims on the part of those who migrate and those who stay behind, with the latter tending to rely on the migrants for their livelihood.

One potential solution to the problems posed by distance would be to provide scope for migrants to initiate and finance investments at a distance via intermediaries such as microfinance institutions (MFI), which would be given direct responsibility for monitoring investments. The MFI could also take charge of finding reliable entrepreneurs in the home country and proposing potential partnerships to migrants with plans to set up businesses in their home countries.

Another way of overcoming the drawbacks of long-distance management would be to devise an immigration policy that allowed migrants to return home for as long as necessary to set up development projects, and to travel back and forth building up more assets and improving their skills.[22] By facilitating information flows and lowering start-up costs, this kind of transnational migration would be of mutual benefit to host countries, home countries and migrants alike.[23]

22. Switzerland has already taken steps to this effect (Raunet, 2001): resident migrant workers who volunteer to return to their country of origin are allowed to keep their Swiss work permits for a period of two years.

23. Researchers at the University of Sussex (United Kingdom) have recently been working on transnational migration (cf. *http://www.geog.sussex.ac.uk/transrede*).

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Table 1.1. Workers' remittances received by developing regions, 1995-2002

Billions of dollars

	1995	1996	1997	1998	1999	2000	2001	2002 (estimates)
All developing countries	48.1	52.6	62.7	59.5	64.6	64.5	72.3	80
Eastern Asia and Pacific	8.3	9.5	14.2	8.3	10.6	10.3	10.4	11
Europe and Central Asia	5.5	6.2	7.1	9.2	8.1	8.7	8.9	10
Latin America and the Caribbean	12.8	12.8	13.6	14.8	16.9	19.2	22.6	25
Middle East and North Africa	8.6	9.1	9.4	10.3	10.5	10.9	13.1	14
South Asia	10.0	12.3	14.6	13.3	15.1	13.5	14.9	16
Sub-Saharan Africa	2.7	2.7	3.8	3.6	3.5	2.0	2.4	4

Source: World Bank (2003), Chapter 7, Statistical Appendix.

Table 1.2. Annual migrant workers' remittances to specific African countries in absolute and economic terms (average 1990s)

	Total (USD million 1995 prices)	Per capita (USD, 1995 prices)	As a % of GDP	As a % of exports of goods and services	As a % of imports of goods and services
Angola	5	0.4	0.1	0.1	0.1
Benin	97	18.1	4.6	17.4	12.8
Botswana	60	41.7	1.4	2.5	2.8
Burkina Faso	101	9.9	3.8	31.7	14.2
Cameroon	18	1.4	0.2	0.8	0.9
Cape Verde	79	205.0	18.3	99.1	33.7
Chad	1	0.2	0.1	0.4	0.2
Comoros	14	23.6	5.8	31.6	14.0
Côte d'Ivoire	102	7.6	1.0	2.5	2.9
Djibouti	15	26.3	3.1	7.0	4.5
Egypt	4 177	71.4	6.6	32.3	23.6
Ethiopia	19	0.3	0.3	2.6	1.4
Ghana	17	1.0	0.3	1.1	0.8
Guinea	3	0.4	0.1	0.4	0.3
Guinea Bissau	2	1.6	0.3	5.6	2.1
Equatorial Guinea	1	2.8	0.4	0.6	0.4
Lesotho	391	204.8	44.6	201.0	40.3
Madagascar	11	0.8	0.3	1.7	1.2
Mali	107	11.0	4.3	21.7	11.7
Morocco	2 039	77.8	6.4	23.9	20.1
Mauritania	12	5.1	1.0	2.4	2.0
Mozambique	61	3.9	2.2	15.4	5.5
Namibia	14	9.3	0.5	0.9	0.7
Niger	10	1.2	0.5	2.7	1.9
Nigeria	776	7.9	2.1	6.2	7.4
Rwanda	6	1.0	0.4	5.6	1.6
Senegal	127	15.3	2.5	9.2	7.3
Seychelles	7	98.7	1.5	2.4	2.1
South Africa	139	3.6	0.1	0.4	0.5
Sudan	266	9.6	2.4	48.5	21.2
Swaziland	91	102.6	7.9	9.9	7.9
Tanzania	8	0.3	0.1	0.9	0.4
Togo	22	5.4	1.5	4.1	3.0
Tunisia	634	71.6	3.7	8.9	8.0
Zimbabwe	1	0.1	0.0	0.0	0.0

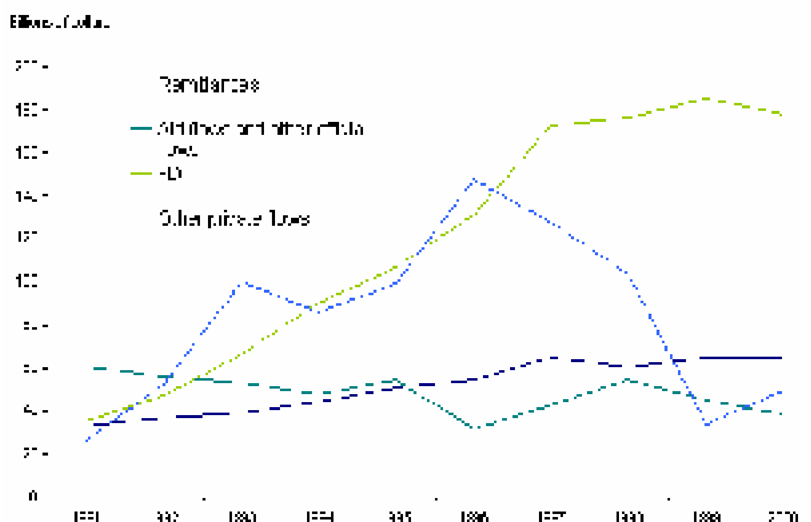
Note: Data for the following countries are not available: Algeria, Burundi, Central African Republic, Democratic Republic of Congo, Eritrea, Gabon, Gambia, Kenya, Liberia, Libya, Malawi, Mauritius, Seychelles, Sierra Leone, Somalia, Uganda and Zambia.
Source: IMF (2002a, 2002b), World Bank (2002), Table from Buch *et al*. (2002).

Table 1.3. Average remittance per migrant[1] in 1996, by country of residence

Migrant's country of residence	Share of migrants remitting (%)	Average remittance in CFAF	Standard deviation
Mali	24.6	18 343	46 332
France	86.8	774 698	626 806
Côte d'Ivoire	32.2	40 290	85 560
Senegal	31.2	13 000	31 885
Other West African countries	35.7	9 286	17 193
Gabon	54.2	115 431	213 922
Other Central African countries	38.9	66 966	124 869
Rest of the world (incl. Libya, Saudi Arabia)	100	286 072	263 569
Overall	58.6	400 464	578 748

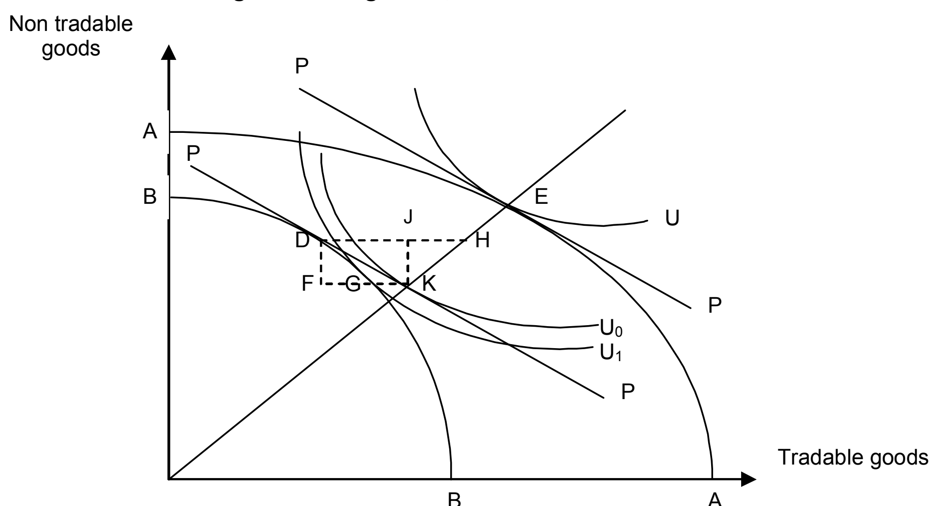
1. Men aged over 18, absent for over 6 months at the time of the survey: CFAF 1 000 = EUR 1.52.
Source : Gubert (2002).

Figure 1.1. Migrant remittances and other external financial flows, 1991-2000



Source: World Bank (2003) and International Monetary Fund (2002a).

Figure 1.2. Migration, remittances and welfare in a statistical model



Let *AA* be the production-possibilities frontier before migration occurs. Given the preferences of domestic agents, the pre-migration equilibrium is at point *E*, the point of tangency between *AA* and a social indifference curve *U*.

Assume now that the frontier moves to BB as migrants are leaving the country. At constant prices, the new production solution would be *D* while the optimal consumption bundle (*i.e.* the one that would keep utility constant for the remaining residents) would be *K*. As clearly shown by the figure, *K* is not an equilibrium since it is characterised by an excess demand for tradable goods. Consequently, the relative price of non-tradable goods decreases as well as the welfare of the remaining residents, with a new equilibrium at point *G*.

What happens now if migrants send back remittances? Suppose that *DH* units of tradable goods are remitted to the related remaining residents. At constant prices, this allows them to consume tradable and non-tradable goods in the pre-migration proportion by exchanging *DJ* units of tradable goods against *JK* units of non-tradable goods with the unrelated remaining residents. If the flow of remittances is exactly *DH*, therefore, both the structure of relative prices and the utility level of remaining residents are kept constant. A larger (resp. smaller) transfer would increase (resp. decrease) the relative price of non-tradable goods, leading to an improvement (resp. worsening) of the unrelated remaining residents (since they are net suppliers of non-tradable goods). On the whole, therefore, the net effect of migration on the welfare of remaining residents depends on the size of remittances.
Source: Djajic (1986).

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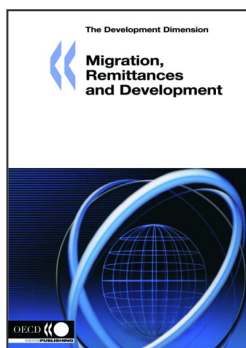

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