For developing countries, migration can be a blessing and a curse: a blessing for providing remittances and overseas contacts and experience; a curse for taking away the brightest and the best. The policy challenge is to minimise the costs and maximise the benefits for developing and developed countries.
By way of introduction...

The shop sits on the borders of Paris, just a few steps from a Metro station. Outside, a sign announces that it’s a travel agency; inside, there are a few phone booths, two Internet stations, and a large desk. Above the desk hangs an aerial photo of the Moroccan city of Fez.

The floor of the shop is filled with luggage – old-fashioned suitcases, unwieldy parcels tied with twine and wrapped in waxed cloth, even a cardboard box that once held a twin baby carriage and is now crammed so full it looks set to burst. The baggage will be taken by truck to Morocco the following week, where it will be picked up by emigrant families back home on vacation, labourers returning home permanently, and the relatives of those still working in France.

Many of the migrants who have left the bags here also regularly send money home – maybe between 50 and 150 euros a month. Some send it through bank orders or agencies like Western Union. Others give it to friends or trusted intermediaries. The money may not sound like much, but in Morocco it can go a long way.

Sitting behind the desk in the shop is Muhammed, who will make sure that these bags and boxes make their way home to Morocco. He admits he’s not very happy here in France: “Life here is too expensive, buying power keeps falling, and taxes are very high,” he says. “All of this encourages the immigrant to invest his money back home, instead of settling permanently in France…”

Migration helps shape the economic and social direction of some of the world’s poorer countries. Sometimes its role is mainly positive, such as when it produces a flood of remittances. But it can also be negative, especially when it steals away the “brightest and best” or deprives families of breadwinners. This chapter examines some of these complex links between migration and development.

Who wins, who loses?

Here’s a rule of thumb: Migrants mostly move to countries that are wealthier – albeit sometimes only a little wealthier – than their home countries. This is not to say that migrants only go from
poor to rich countries: As Chapter 2 explained, about a third of the world’s migrants travel between relatively developed countries, while a third move from developing countries to other developing countries. But it does help to underline the reality that economic factors – the prospects of finding better paid work or a higher standard of living – are important for migrants the world over.

The economic benefits of moving to another country can be substantial in terms of raising the incomes of migrants. But it can also have a powerful impact on the communities they leave behind, especially in the developing world. Some of this impact is positive, such as when remittances help to reduce poverty and allow families to invest in their children’s education. But some of it can also be negative, such as when the loss of well educated or highly skilled workers holds back developing countries from reaching their full potential.
The economic impact of migration on developing countries – both negative and positive – is felt in three main ways:

**Changes in the labour force:** Depending on how many people are emigrating and who they are, a developing country may find itself short of certain types of workers. In some cases this can lead to a “brain drain”, depriving poorer countries of the skilled people needed to kick start their economies and key workers in areas like healthcare and education.

**Changes in productivity:** Productivity is a measure of the value of the goods and services produced by workers. Generally, more skilled workers have higher levels of productivity – think of the difference between a teenager tossing burgers in a fast-food restaurant and a highly trained chef in a top-class restaurant. In economic terms, a developing country that loses skilled workers may suffer a drop in productivity, which, in turn, will hurt the economy.

**A supply of remittances:** Emigrants often send money back home, which can help their families, local communities and even national economies. Because many remittances are sent through “unofficial” channels, it’s all but impossible to calculate their global scale accurately, but estimates suggest they may be as much as three times greater than foreign aid to developing countries.

"International migration contributes to economic growth and poverty reduction in the migrant-sending country through three channels: changes in the labour supply, induced changes in productivity, and remittances."

Policy Coherence for Development: Migration and Developing Countries

Migration can bring significant economic benefits to developing countries, even if these may sometimes take a while to materialise, and may only appear at certain stages of migration. For instance, remittances don’t usually begin flowing immediately when people emigrate: There’s usually a period when they need to get themselves established before they can start sending money home. But there are costs, too, both economically and socially. And although it can be hard to tally up the plusses and minuses for an entire country, there’s little doubt that individual families, villages and even whole regions can suffer when they are left behind by emigrants.
Left behind…
It’s a strange name for a book – *The Mushroom Covenant*. But for the people of Latvia the subject it covers – emigration and its impact both on those who leave and those who stay – is anything but strange. After their country joined the European Union in 2004, many Latvians took advantage of their newfound freedom to work in some – but not all – of the EU’s member states. Britain and Ireland proved popular destinations, and Latvians worked in a number of areas, including mushroom farms, hence the title of book. (More recently, as the economies of western Europe have slowed, there have been signs that emigrants are returning home.)

Latvian families benefit from remittances sent home by emigrants, but they also pay a price. “There is hardly a family left in this country who hasn’t lost a son or daughter or mother or father to the mushroom farms of Ireland”, Laima Muktupavela, author of *The Mushroom Covenant*, told a reporter. During her time away, she said her four children – “mushroom orphans”, as they’re known in Latvia – felt abandoned, while her partner left her for a time.

There are similar stories from around the world. Villages where deserted homes stand alongside bright new modern houses built by migrant remittances that may be lived in for no more than a few weeks every year. “In almost every village in rural Mexico you find a kind of ghost town”, author Sam Quinones, who has written about the experiences of Mexican emigrants in the United States, told a reporter. “You walk around these gorgeous houses with sliding patio doors and wrought-iron fencing, but no one is around.”

“In Albania, some 20 000 married women were living without their husbands at the time of the 2001 census, while many elderly people have been left behind by their emigrant children, creating the phenomenon of socially-isolated ‘elderly orphans’.”

Policy Coherence for Development: Migration and Developing Countries

Typically, migration – especially when it’s temporary or short-term – hollows out the working-age population, leaving children and the elderly behind. Children and young people, of course, may benefit greatly from migrant remittances, particularly
when it pays for improved healthcare and education. But their development can suffer when parents go to work overseas. Studies in Bulgaria, which has seen substantial emigration since the end of the communist era, show quite high school-dropout rates among the children of migrants, often because they go to join family members working overseas. Studies in the country also show teachers reporting more discipline problems with students whose parents work overseas.

But the impacts of migration go beyond social concerns in developing countries, affecting economies through the loss of both skilled and unskilled workers...

**Brain drains... and gains?**

On the Indonesian island of Bali, Yanuar Restu Widodo, a 24-year-old nurse, is making plans for his future. “I could earn $1 500 a month if I work in Japan”, the young nurse told a reporter, or about five times more than he earns on Bali. Up to now, Yanuar could only dream, but following a recent agreement between Tokyo and Jakarta to admit 1 000 Indonesian care workers, he can set about turning that idea into reality. “I’ll apply as soon as possible,” he says.

Japan has traditionally been slow to admit foreign workers, but that may be beginning to change. The agreement with Indonesia marks the first large-scale admission of foreign care workers and nurses. Even though there will be tight restrictions on the Indonesians – they will have to go through special training and exams in Japan – many predict the country’s doors will open still further. Japan’s population is ageing even more rapidly than in other developed countries, and young people are increasingly unwilling to do “3K jobs” – *kitsui, kitani,* and *kiken,* or difficult, dirty and dangerous.

In future decades, then, nurses from Indonesia and the Philippines could become as familiar sight in Japan as they already are in the rest of the OECD area, where in the year 2000 there were an estimated 110 000 Philippine nurses working. Indeed, anyone who spends time in a hospital in a wealthy country has a pretty good chance of being cared for by a doctor
or nurse who was born and trained overseas. The growing role of doctors and nurses from developing countries in OECD countries is much discussed, but what’s often less noticed is the effect of their departure – and that of other workers, whether skilled or unskilled – on their home countries. So, what is the impact? The answer depends to some extent on the sort of workers that are leaving, and whether they are low or highly skilled.

**When low-skilled workers emigrate...**

When low skilled workers depart, the biggest benefit for a developing country may be that their remittances help eat into poverty. There are three main reasons for this:

- Firstly, lower-skilled workers tend to send proportionately more money home in remittances than professionals.
- Secondly, low-skilled workers tend to come from poorer families, so any economic benefits from their departure – for example, remittances – will tend to go to families in greatest need.
- Thirdly, depending on unemployment levels in the home country, the departure of low-skilled workers will either boost the wages of those left behind or create new job opportunities for them.

That last point is worth explaining in a little more detail. Where unemployment is low, companies may find it hard to replace workers who emigrate, so the salaries of people who stay behind will rise as companies hunt around to replace the lost workers, at least in theory. In the real world, however, migration tends to be associated more with joblessness, and there are rarely high levels of emigration from countries where unemployment is low. In this sort of situation, the departure of low-skilled workers can create new opportunities both for people without jobs and for those already in work.

**When high-skilled workers emigrate...**

On the other hand, the loss of highly skilled and professional workers – the “brain drain” – is often regarded as one of the main dangers of migration, even if the risks are sometimes misrepresented. Indeed, arguments can even be made for some benefits, most notably where there is return migration and people who have gone abroad bring home new skills.

Although it can sometimes sound rather permanent, the reality of international migration is that some people will eventually
make their way back home. Even at the height of immigration to the United States at the turn of the 19th and 20th centuries, it’s estimated that between a quarter and a third of migrants returned to live in their home countries. Some, indeed, may have travelled repeatedly between the US and their home countries, a phenomenon known as “circular migration”.

“Return migration, as well as temporary and circular migration, can promote the circulation and exchange of skills and know-how.”

Policy Coherence for Development: Migration and Developing Countries

The return of migrants – whether permanent or temporary – can bring benefits in many areas. In Mexico, for example, it’s been found that children in returnee families are more robust and less likely to die in infancy, which is due in large part to the health knowledge their mothers gained when they were abroad. In economic terms, returnees can bring useful knowledge and contacts from overseas, and can provide an important means for transferring skills.

However, it’s important to be realistic about these benefits. The reality is that migrants from wealthier countries are more likely to return home than those from poor and developing countries. Also, migrants may be bringing home newly acquired skills that are not really of use in the developing world.

**Understanding the brain drain**

One way to understand the scale of the brain drain is to look at the percentage of a country’s university graduates who are living overseas. In a list of the 40 countries with the highest proportion of graduates working abroad in OECD countries, a total of 21 of them – just over half – are in Africa, and all but three of those are in sub-Saharan Africa. Unlike, for example, south-eastern Europe, a high number of emigrants from African countries are highly skilled – a phenomenon that leads to losses in three main areas:

- Firstly, there’s the loss of people who, in normal circumstances, might be expected to be a country’s most important innovators and suppliers of new ideas.
- Secondly, developing countries “lose” the money they have invested in educating people.
Thirdly, developing countries may find that shortages of qualified staff make it impossible to deliver adequate healthcare and education.

Perhaps no area of the brain drain has been more discussed than the flow of medical workers around the world. Back in 2000, around 11% of nurses working in the OECD area were foreign born, while for doctors the figure was estimated at 18%. The figures are even higher for individual OECD countries: In the United States around a quarter of doctors were born overseas, in the United Kingdom around a third. In the years since 2000, those numbers have almost certainly risen.

In parts of sub-Saharan Africa and Central America, as many as half of all university graduates migrate to OECD countries. This can have serious consequences for sectors like education, health and engineering.
By sending doctors overseas, taxpayers in poorer countries are in some senses subsidising the medical systems of far wealthier countries. There is also concern that medical schools in developing countries – spurred on by their student’s travelling plans – may place too much focus on diseases that are more prevalent in developed countries rather than those found locally. And the brain drain of talented young doctors may also damage poorer countries’ abilities to tackle AIDS and HIV.

There’s also a gender aspect to the brain drain that is often overlooked. Women in developing countries often face more difficulties than men in going to university. Yet, those women who do make it into third-level education are often highly likely to emigrate subsequently. Not only does that represent a loss of human capital for developing countries, it also undermines efforts to help the next generation to develop to its full potential. Estimates by researchers indicate that the migration of highly educated women affects the next generation of children in a number of significant ways, including higher rates of mortality for infants and the under-5s, and lower rates of enrolment in secondary school.

Overall, the impact of the brain drain is felt particularly acutely in some developing countries, such as Malawi, where the loss of trained medical workers is seriously affecting health care. But it’s important to recognise that in many other developing countries, migration is just one factor – and not always the most important one – holding back health services. In some developing countries, the health system can’t offer enough job opportunities to medical trainees, making it inevitable that some will look overseas. Also, analysis by United Nations agencies shows that blocking the migration of healthcare staff from developing countries would only go part of the way to easing staffing shortages. The World Health Organisation estimates that about 2.4 million extra medical staff are needed in African countries, which suffer the greatest shortages. However, the number of medical staff from those countries working in the OECD area amounts to just a quarter of that total. A much more comprehensive approach is therefore needed to build up adequate healthcare systems in these countries.
“... international migration is neither the main cause, nor would its reduction be the solution to the worldwide health human resources crisis, although it exacerbates the acuteness of the problems in some countries.”

International Migration Outlook: SOPEMI 2007

A similar point can also be made for developed countries. Too often, overseas medical workers are hired as a quick-fix, when what is really needed is a fundamental rethink of issues like training and the ability of healthcare systems to hold on to qualified staff. Indeed, it’s easy to forget that many of the overseas-born medics working in developed countries come from the OECD area themselves. Making better use of locally born health workers will be essential as health systems in OECD countries respond to ageing populations in the years to come.

What is the role of remittances?

Walk around the streets of many of the world’s major cities, and you won’t travel too far before encountering the familiar golden “M” of a McDonald’s or the distinctive mermaid logo of a Starbucks. These food outlets seem singularly ubiquitous, but there’s another American-owned business that has even more international outposts. In fact, it has more than McDonald’s, Starbucks, Burger King and Wal-Mart combined – five times more, according to the New York Times. What is it? Western Union.

<table>
<thead>
<tr>
<th>What are remittances?</th>
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<td>In simple terms, remittances can be thought of as money migrants send back to their home countries, usually for the use of their families or – eventually – themselves. Migrants may also build up savings when they’re overseas, and if they then return home permanently and bring this money with them it’s also generally considered a remittance.</td>
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<td>From the point of view of compiling statistics, the definition can be even broader, and may include all money paid to temporary migrants when they’re overseas or to workers who commute across an international border, such as Belgians who work in Luxembourg.</td>
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Remittances as a percentage of GDP, 2006

This graphic shows the value of money sent home by migrants to remittance-receiving countries as a percentage of their GDP. For example, in Tajikistan in 2006, remittances accounted for 36%, of GDP – equivalent, in effect, to more than a third of the country’s total economic activity. However, this is just one way of measuring the scale of remittances. For instance, one could also look at remittances in terms of the actual money received by each country (data which also have the advantage of being more up to date).

In 2007, the top 10 remittance-receiving countries were estimated as follows by the World Bank:

<table>
<thead>
<tr>
<th>Country</th>
<th>Remittances (billion)</th>
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<tbody>
<tr>
<td>India</td>
<td>$27.0</td>
</tr>
<tr>
<td>China</td>
<td>$25.7</td>
</tr>
<tr>
<td>Mexico</td>
<td>$25.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>$17.0</td>
</tr>
<tr>
<td>France</td>
<td>$12.5</td>
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<tr>
<td>Spain</td>
<td>$8.9</td>
</tr>
<tr>
<td>Belgium</td>
<td>$7.2</td>
</tr>
<tr>
<td>Germany</td>
<td>$7.0</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>$7.0</td>
</tr>
<tr>
<td>Romania</td>
<td>$6.8</td>
</tr>
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</table>

The presence of wealthy OECD European countries on this list may seem surprising. In reality, a great deal of the money that goes to these countries is not remittances as they are popularly understood. For example, salaries paid to people living in one country but working in another – such as Belgians who commute to work in Luxembourg every day – are regarded from a statistical point of view as remittances.

The company began life in the 1850s to send telegraphs across the vast North American continent, and then came close to collapse at the dawn of the age of the Internet era. But in recent years it has reinvented itself by focusing on one particular business – transmitting migrants’ remittances. The activities of Western Union may sometimes be controversial – critics have accused it of charging excessive fees – but its success is a mark of the huge growth in migrant remittances.

In 1995, the value of remittances worldwide was put at $102 billion; by 2005, that had more than doubled to an estimated $232 billion, well in excess of what was given in overseas development aid or foreign direct investment. By 2007, the figure had reached $318 billion, according to World Bank estimates, of which $240 billion, or about 75%, went to developing countries. And, because a substantial slice of remittances goes through “unofficial channels” – in other words, not through banks or agencies like Western Union – the actual figures are almost certainly considerably higher than these estimates.

**Who remits and why?**

What determines how much money migrants send? It’s hardly surprising that migrants who leave a spouse and children behind tend to send more home than people who travel with their families. It’s not unusual for solo migrants to also be lower skilled workers, which, in turn, usually means they come from poorer communities.

> “… Migrants’ intention to return to their family is a key factor in motivating high savings and remittances.”

Policy Coherence for Development: Migration and Developing Countries

The impact of these factors are clearly visible in global remittance patterns. For example, the many millions of migrants working in the Persian Gulf region send home more money per head – over $2 600 a year – than migrants anywhere else in the world. Most of these migrant are low-skilled labourers from Asian countries, such as Bangladesh and the Philippines, and most will eventually go back home. In the meantime, the money they send back to their families can be hard-earned. The United States government, for instance, has spoken of “conditions of involuntary servitude” in the Gulf state of Qatar, as well as workers who are offered
misleading contract terms when they are recruited and who “often suffer miserable working and living conditions”.

Other factors also affect the scale of remittances. For example, the longer emigrants spend away, the smaller the share of their income they tend to send home, although it may take some years before this effect becomes noticeable. This fall off may also be balanced by the tendency of migrants’ incomes to rise over time, so their remittances may not decline in real terms but only as a proportion of their overall earnings.

Why do emigrants send money home? One Nigerian emigrant in London replied that “it is my social, moral, cultural duty to help the family” when asked that question by a reporter. No doubt that sums up the thinking of many migrants, but buried
in such responses are a whole range of motivations for sending remittances that are worth exploring in a little more detail.

“The studies that analyse this phenomenon [of remittances] provide useful descriptive evidence and results from empirical research, but they only explain it partly...”

International Migration Outlook: SOPEMI 2006

Overall, there is no general theory to explain migrant remittances, but experts who have studied this question have proposed a series of “models” that attempt to explain why migrants send money home. These include “pure altruism”, where the motivation is simply that migrants want to help their families, and at the other end of the scale, “pure self-interest”, where the motivation is to encourage relatives to care for assets left behind, like a farm or a car, or to build up status in their community.

There are more complex explanations, too, such as “implicit family agreement”, where remittances are seen as a payback to the family for paying the migrant’s fare and providing support during the first few months away. Migrants may also “pay back” what they feel they owe to their families by supporting the next generation in their attempts to emigrate. Finally, remittances are

<table>
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<th>MIGRATION IN A RECESSION</th>
<th>Remittances</th>
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<td>Remittances to developing countries started slowing in late 2008 as the global economic slowdown began to bite, the World Bank estimates. In the previous year, their value had been equivalent to 2% of the GDP of developing countries, but the World Bank reckoned this would fall to 1.8% in 2008 and to about 1.6% in 2009. These falls are not insignificant, but they need to be seen in context. Firstly, not every developing country will be affected equally. Secondly, other income flows – such as overseas aid and foreign investment – will also slow in the slump, leading remittances to account for an even bigger share of inflows to developing countries.</td>
<td>Historically, indeed, remittances have tended to prove fairly resilient during slowdowns for several reasons: Firstly, emigrant communities build up over many years and don’t simply vanish at the first hint of recession. Secondly, if emigrants do decide to return home, they will usually bring savings with them, which count as remittances. And, thirdly, remittances account for only one part of each emigrant’s outgoings; even if their income falls, emigrants have traditionally made other sacrifices to try to go on sending money back home.</td>
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sometimes also explained in terms of “migrant savings targets”, which assume that migrants have the goal of going home with certain sums in savings; their ability to reach those goals will depend on how much they’re earning, their day-to-day costs, and family demands for support.

“... it may be the case that remittances are driven by all of these motives at the same time, each one explaining a part of the remittance amount or period of remitting practice.”

International Migration Outlook: SOPEMI 2006

None of these concepts offers a perfect method for predicting how much migrants will send home, and they also tend to exclude the potential importance of other factors – such as political and economic stability in the home country or the existence of financial incentives for migrants to send home income. In reality, remittances are probably driven by a mix of all these motivations, which rise and fall in their significance at various times.

How are remittances made?

The ways in which migrants send money home depends on a mix of what transfer means are available to them, what’s safest, what’s quickest and what’s cheapest. Their options traditionally range from the informal – for example, simply putting it in their pockets and jumping on a boat or a plane that’s heading back home – to formal channels, such as bank transfers.

At the informal end of the spectrum, probably the simplest method is hand-carrying money, which can be done by the migrant or a trusted friend or relative. For a long time it was thought only small numbers of quite poor migrants used this method, but research indicates it may be more widespread. According to some estimates, hand-carrying may account for 10% of remittances by Latin American migrants in the United States, and as much as 50% of remittances by Romanians.

Many Asian migrants rely on informal systems in which their money is never physically or electronically transferred. These systems – known variously as hawala, hundi or fei ch’ien (literally, “flying money”) – are based on intermediaries and trust. A typical transfer might work like this: A Pakistani migrant in London goes to a trusted hawalader, or intermediary, and hands over the money he wants to transfer. The hawalader

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then contacts a counterpart in Pakistan, and asks him to pay over the sum of money to the migrant’s family. Although the Pakistan hawalader has paid out on this deal and received nothing in return, chances are that there will be other deals where he will gain money in transfers from Pakistan to London. Where the payments to and fro don’t cancel each other out, the hawaladers organise an annual settling of accounts to balance the books. This relationship between the hawaladers relies on trust – and fear of the consequences if anyone tries to cheat.

Migrants also have a wide range of more formal transfer options, ranging from immigrant-run businesses – known as “ethnic stores” in the United States, to post offices, transfer giants like Western Union and Money Gram, as well as banks. And, in the future, it’s likely that migrants will be make increasing use of mobile phone technologies to transfer money, which are being pioneered by the likes of CitiBank, MasterCard, Western Union and Vodaphone.

Such approaches may help cut the costs of a making transfers through formal channels, which is a serious burden for many migrants. According to estimates by the Inter American Development Bank, a migrant sending $200 back home will pay an agency like Western Union as much as $24 in commission, or 12%, and around $14, or 7%, to a bank. By contrast, the commission on a hawala transfer is usually under 2%. Indeed, the development bank estimated that the total cost of sending remittances to the Caribbean and Latin America in 2002 was $4 billion, or about one-eighth of what migrants from that region sent back home that year.

“... if immigrants who regularly dispatch most of their disposable income in remittances could acquire the habit of accumulating money in a bank account, they would attain benefits that go beyond economising on the costs of remittance.”

Migration, Remittances and Development

Why does this matter? Firstly, the payment of a $24 commission on a $200 remittance amounts to a considerable loss of potential spending power for both the migrant and her family, even if the method of payment brings extra security and peace of mind. Secondly, relying on international transfer agencies, and more informal systems, deprives migrants of some of the benefits of getting a foothold in the financial system by opening a bank account. As well as the potential for lower transfer fees if they’re customers, migrants could also potentially
take out cheaper loans than if they’re depending on neighbourhood loan sharks, and – in some countries – take advantage of low-tax retirement and savings accounts.

Many migrants, however, can find banks unapproachable, especially if they’re struggling to learn the language of their adopted country, while irregular migrants may be unable to open accounts if they don’t have a social security number or ID card. In response, some countries are moving to make bank transfers easier for migrants, even those without legal status. In the United States, the Federal Reserve, or central bank, has established the “Directo a Mexico” programme that allows all Mexicans living in the United States, regardless of status, to send money back home for no more than a few dollars per transfer. Opponents accuse the programme of undermining United States migration laws, but supporters say that keeping money transfers in the open may help to combat the crime that’s sometimes associated with informal transfer systems.

What is the impact of remittances?
Wander into a village in a developing country like the Philippines, and the impact of remittances on families soon becomes apparent. Homes with a son or daughter or father or mother working overseas may be putting up a new roof or even building a new house, there may be a colour TV blaring out the latest episode of a soap opera, the kids may be wearing brightly coloured clothes sent home in big bundles from places like Hong Kong or Singapore, and when it comes to mealtimes there may be more food on the table – rice and local meat and vegetables, but also treats like imported candy bars.

For families and villages – the micro level – the impact of remittances can be quite considerable, but at the regional or national level – the macro level – their impact is less clear. Remittances may reduce poverty, but can they also increase inequality? And if remittances generate local economic activity, such as house building, can they also affect national economic growth and, if so, how?

One of the clearest impacts of remittances is in reducing poverty or, more precisely, absolute poverty – essentially, people living on under a dollar a day (see box). According to researchers at the World Bank, a 10% increase in remittances per person to a
developing country decreases absolute poverty by 3.5%. Arguably, this improvement understates the impact of remittances: Even though some families will remain below the poverty line, they will still see some improvement in their income as a result of remittances – indeed, for the poorest families, remittances can account for a very large percentage of their income.

Remittances may also have an impact on income inequality, in other words, the gap between the poor and better off. The usual measure of income inequality is the Gini index, where 0 equals absolute equality and 1 absolute inequality. (Such places don’t exist in the real world, but in a country with a Gini coefficient of 0, everybody would have exactly the same income; in a country with a coefficient of 1, just one person would have all the income, and everyone else would have nothing.)

The research findings from around the world are mixed – in some countries, such as Tonga and Mexico, remittances seem to have decreased income inequality. In others, such as Egypt, they increased it. This may be because families that are relatively better off can more easily afford the initial costs of sending off a son or daughter to work overseas than their poorer counterparts, and so are more likely ultimately to benefit from remittances. Some researchers argue that in countries where income inequality is relatively low to start with, remittances will tend to lower it still further; but, where income inequality is high, remittances may only make it worse.

What are remittances spent on? There’s no simple answer to this question – situations vary greatly, not just from family to family but also country to country. But for a range of reasons, it’s relatively unusual for families receiving remittances to invest

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**How is poverty defined?**

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<th>Absolute poverty generally refers to people who are surviving on less than a certain fixed sum of money, usually a dollar a day.</th>
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<td>Relative poverty is a more fluid concept, and describes whether people are poor compared with other people in their country or community.</td>
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</table>
directly in the economy by, for instance, opening businesses. Instead, much of the money tends to go on typical day-to-day expenditures, like food and clothing, especially among poorer families. Typically, remittances are also devoted to children’s education, paying off debts, paying for healthcare, buying land and building houses. A share, also, may go on luxuries, some of which are likely to be imported, meaning that money sent back to the home country may soon leave it.

Some overseas migrant groups have sought ways to make remittances more effective for the entire community back home, and not just individual families. Beginning in the 1960s, emigrants from the Mexican state of Zacatecas in the United States began forming home-town associations to help each other out if they fell ill and to organise the return of bodies of the deceased. These *Clubes Zacatecanos* eventually broadened their role, and supported projects back home, such as repairs to churches and plazas. Their efforts later received official backing, with the state government matching each dollar collectively remitted by the clubs under a scheme called 2x1. Today, 3x1 programmes operate across Mexico at the federal level, with government providing two dollars for every dollar of collective remittance. Much of the money is used to fund water and sewage projects, community development centres and school scholarships. The success of such schemes highlights the potential for diaspora networks and hometown associations to support development back home, and this can go beyond financial aid: Emigrants can also provide their home communities with much-needed expertise and skills and provide valuable business and social contacts.

Whatever way they’re delivered – individually or collectively – remittances can have a significant economic impact, mainly through what economists call the “multiplier” effect. Think of it this way: A family building a new house will have to hire a builder; he, in turn, will probably have to hire a couple of helpers and buy building supplies; the building supplier, meanwhile, may find that he’s so busy he now has to hire some new staff or buy a computer, which means extra business for the computer store, and so on… This chain of consequences is so significant that researchers have even set out to measure it. In Mexico, for instance, it’s been estimated that every dollar in remittance, or “migradollar”, received by families in cities leads to an increase in GNP of $2.90. (GNP – or gross national
product – is a widely used measure for economic activity that occurs solely within a country’s borders.)

By supplying foreign currency, remittances have other economic benefits. They can ease deficits in the balance of payments accounts, which represent money flowing into a country versus money flowing out. The economics is complicated but, in simple terms, remittances represent a positive contribution to the balance of payments, which is why some developing countries over the years have actively encouraged migrants to send money home.

That’s all to the economic good, but there may be potential downsides, too. Some analysts argue that remittances create a dependency culture – leaving people reliant on handouts and unwilling to take risks or even to do much in the way of actual work. There may also be direct and unwanted economic changes, which economists sometimes group under the heading “Dutch disease”.

The term was inspired by the experience of the Netherlands in the 1960s, when it suddenly discovered large deposits of natural gas in the North Sea. Good news, but the Netherlands’ new-found wealth had an unwelcome side effect: The value of its currency began rising against other currencies, which made Dutch exports more expensive and less competitive overseas and left the manufacturing sector struggling. A windfall of remittances – like the discovery of natural gas – can have a similar impact: The currency’s value may begin to rise and the economy may focus on satisfying local needs (such as building houses), shifting energy away from manufacturing and making what exports are produced more expensive.

“... remittances are not a panacea, and cannot substitute for sound economic policies in developing countries.”

Migration, Remittances and Development

To be fair, evidence of remittances having such an impact is relatively slim. Equally, however, there is no clinching argument for saying that large-scale remittances will always fuel economic growth. Situations vary from country to country, and the benefits of remittances can easily be lost in the absence of well thought-out development policies.
Final thoughts…

Of course, development is only aspect of international migration. As this book has shown repeatedly, governments face challenges in a wide range of areas to maximise the benefits and minimise the drawbacks of migration. In the next, and final, chapter of this book we’ll review some of the issues this book has looked at, and take a look at the some of the statistical issues involved in measuring international migration.
Find Out More

**FROM OECD**

*On the Internet*
For an introduction to OECD work on development and migration visit www.oecd.org/dev/migration.

*Publications*

**Policy Coherence for Development 2007: Migration and Developing Countries** (2007): This report examines the costs and benefits of migration for developing countries, and looks at ways migration flows could be better managed around the world. The report encourages receiving countries to look at migration policies through a development lens and sending countries to look at development policies through a migration lens. Interlinking migration and development policies promises a more effective pursuit of the objectives of both sets of policies. This volume provides the basis for a productive debate surrounding policy innovations maximising the overall benefits of international migration.

**Gaining from Migration: Towards a New Mobility System** (2007): How should the global system of labour mobility be managed to better meet the needs of sending countries, receiving countries, and migrants themselves? In short, how can we all gain more from migration? This report is a summary of recommendations that seek to answer this question. New ideas, based on an exhaustive review of past policy experiences in Europe and elsewhere, are offered for policies related to labour markets, integration, development co-operation and the engagement of diasporas.

**... AND OTHER SOURCES**

**Global Forum On Migration and Development** (www.gfmd-fmmd.org): An informal and state-led global forum that seeks to provide "a platform for policymakers to share information on ideas, good practices and policies regarding migration and development, and to explore new initiatives for international cooperation...".

**United Nations Development Programme** (www.undp.org/poverty/migration.htm): This UN agency works on migration “because of the many impacts it can have on poor people and poor countries”.

**World Bank** (www.worldbank.org): The Bank’s work includes assessing the scale of international remittances and the impact of payment systems. Its website includes a special section on remittances: www.worldbank.org/remittances.

**International Monetary Fund** (www.imf.org): The IMF does work on the impact of international migration in the context of economic globalisation and on assessing the scale of remittances. Search for “migration” or “remittances” at the IMF Web site.

**Institute for the Study of International Migration** (www12.georgetown.edu/sfs/isim): Based at Georgetown University, ISIM hosts a special research consortium on the role of remittances in situations of conflict and crisis.
Please cite this chapter as:


DOI: [https://doi.org/10.1787/9789264055780-8-en](https://doi.org/10.1787/9789264055780-8-en)