# Migrant Workers' Remittances: A Development Instrument in Question

Although remittances can play a positive role in poverty reduction, excessive reliance on remittances fosters dependence and economic vulnerability.

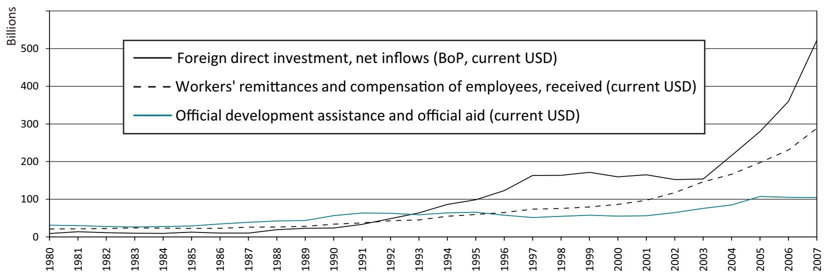
**Louisa Vogiazides**[1]
**Eurostep**

Over the past two decades, remittances sent by migrants to relatives who stayed behind have created increasing enthusiasm among academics, policy-makers and financial institutions. Over the past few years, numerous international summits have highlighted the link between migration and development, notably the UN High-level Dialogue on International Migration and Development, the Global Forum on Migration and Development, and the Euro-African ministerial meeting on Migration and Development. The World Bank's *Global Economic Prospects 2006* focused entirely on the economic implications of remittances and migration. However, the recent enthusiasm around remittances as a development tool is exaggerated. Evidence suggests that a national development strategy heavily dependent on remittances is not sustainable. Moreover, discourses on the positive effects of remittances on development often neglect one important aspect: the costs borne by migrants in the process of generating them.

Remittance flows include money sent by migrants to relatives in their home countries, financial investments in real estate or business, and savings in banks in their country of origin[2]. In recent years, such flows have been increasingly viewed as a mechanism for funding development in the Global South and for achieving the Millennium Development Goals (MDGs). Hence, remittances have become the 'new development mantra'.

Enthusiasm around remittances is based on a number of claims. First, remittances represent the second-largest source, after Foreign Direct Investment (FDI), of external funding for developing countries. In 2008, officially recorded remittances were estimated to have reached USD 305 billion, which is almost three times as much as Official Development Assistance (ODA) (USD 119.8 billion in 2008) and nearly two-thirds of FDI (USD 517.7 billion to developing countries in 2008). It must be noted that this amount represents only a fraction of the sums actually remitted, as large amounts of money are transferred through informal channels.

**Figure 1: Absolute trends for FDI, ODA and remittances for low and middle income countries 1980-2007**




**Source:** World Bank

Second, remittances are the fastest growing source of external funding, with amounts doubling between 2002 and 2007 (Ratha et al., 2007).

Third, until recently, remittance flows were considered less volatile than private capital flows, as they often moved counter-cyclically. In other words, they remained stable, or even rose, during economic downturns (World Bank, 2005). This assertion is, however, contradicted by the current financial and economic crisis, which has triggered a drop in remittance flows. The World Bank projects a decline in remittances flows of 7 to 10 per cent in 2009 as a consequence of the crisis (Ratha et al., 2009).

A fourth argument in favour of remittances is that they often cover an important part of the remittance-receiving country's trade deficit. For example, remittances are considered to have financed more than 70 per cent of the Albanian trade deficit since 1995 (Mansoor & Quillin, 2007) and 75 per cent of Moldova's trade deficit in 2005 (Razin, 2006).

Moreover, evidence suggests that remittances improve a country's creditworthiness for external borrowing, enabling it to borrow at lower interest rates (World Bank, 2005). For example, in the case of Albania and Bosnia and Herzegovina, the ratio of debt falls by roughly 50 per cent when remittances are taken into account. Being less indebted, these countries acquire better access to credit (Mansoor & Quillin, 2007).

Sixth, remittances are considered to contribute significantly to poverty reduction, both directly and indirectly. Remittances can act as income insurance for households, especially during times of crisis, such as economic downturns, political conflicts and environmental disasters. The Asian Development Bank estimates that, in 2006, remittances maintained 4.3 million people out of poverty in the Philippines (Balea, 2009). In Kosovo, remittances are said to have played a significant role in post-conflict reconstruction (Vathi & Black, 2007).

Beside the direct effect of remittance income on poverty reduction, remittances can also have an indirect effect on the national economy. When invested, remittances can contribute to employment creation. Moreover, the additional consumption made possible by remittance income can stimulate the local economy and thus benefit families that do not receive remittances (World Bank, 2005).

## Remittances at times of global crisis

Without doubt, remittances represent precious income insurance for poor households. Yet, reliance on remittances makes remittance-receiving countries vulnerable to economic fluctuations and to the various immigration and labour policies in remittance-source countries. These concerns are particularly acute in countries where remittances constitute an important share of GDP.

The risks involved in remittance dependency are sadly illustrated by the current global financial crisis. As a result of the global economic downturn, 2008 witnessed the first sustained drop in remittances since flows started being recorded. The World Bank estimates that remittances will fall by 7 to 10 per cent in 2009. Remittances to Sub-Saharan Africa and Europe and Central Asia are expected to decline by 4.4 per cent and 10.1 per cent respectively. Moreover, the Inter-American Development Bank (2009) estimates that the decline in remittances "will have a direct effect on more than 1 million households in Latin America and the Caribbean, half of

1 The author thanks Badara Ndiaye for his useful comments.

2 Parallel to 'economic remittances', the term 'social remittances' refers to the ideas, behaviours, identities, and social capital that flow from the host society to the sending country, and conversely. However, this article focuses only on economic remittances.

which are in Mexico". Added to the fall in FDI, export incomes, and ODA, falling remittances are causing hardship in many developing countries.

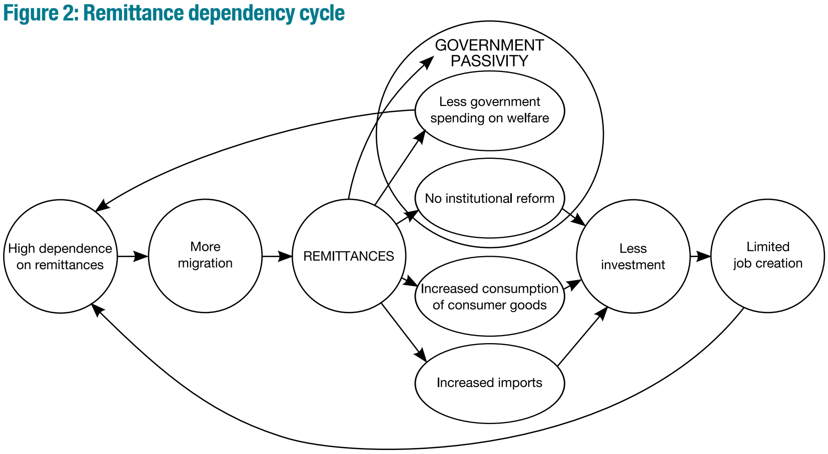
The decline in remittances is largely due to the fact that migrant workers have been harder hit by the recession than natives. A report from the Centre for Immigration Studies shows that unemployment among immigrants (legal and illegal) in the US was higher in the first quarter of 2009 than at any time since 1994, when immigrant data was first collected separately (Camarota & Jensenius, 2009). The rise in unemployment in the Spanish labour market has particularly affected the migrant population. While the overall unemployment rate approximated 17 per cent in the first quarter of 2009, the unemployment rate among foreign workers reached 28 per cent[3].

The current situation offers little reason for optimism about the future. The World Bank economists Dilip Ratha and Sanket Mohapatra (2009) fear that, "if the crisis were deeper and if it lasts longer, the decline in remittance flows may become even sharper". They also argue that weakening job markets in migrant host countries are likely to lead to more tightening of immigration controls, which, in turn, will affect remittance flows. The strengthening of immigration controls is not a new phenomenon, but it may be exacerbated in the context of the global economic crisis. In 2006, the United Kingdom introduced a system granting points to prospective migrants according to their labour market-related 'attributes', such as educational qualifications, previous earnings and age. Such a system favours highly qualified migrants over low skilled or unskilled migrants. In February 2009, the British Government raised the minimum educational and financial requirements, even for highly qualified migrants. The Home Office estimates that the number of non-EU highly qualified workers entering Britain after April 2009 will fall by almost half because of tougher entry requirements (Ford, 2009). In October 2008, Spain introduced a 'voluntary return programme' giving financial incentives to migrants willing to return to their home country. If migrant workers agree not to return to Spain for three years, they are repaid their contribution to the unemployment insurance scheme: 40 per cent upfront and the balance upon return to their country of origin (Abend, 2008). More recently, in May 2009, the Italian Lower House approved legislation that makes entering or staying in Italy without permission a crime punishable by a fine of €5,000 to €10,000, sets up citizen anti-crime 'patrols' and sentences landlords to up to three years imprisonment if they rent to undocumented migrants[4].

3 These rates were communicated by the Spanish Statistics Institute to the Migration Policy Institute (Washington DC).

4 For further information on the new Italian immigration legislation, see Italy's national report on page 62.

**Figure 2: Remittance dependency cycle**




**Source:** Vogiazides (2008)

## The vicious cycle of remittance dependency

Declining remittances heavily affect developing countries' economies. Yet, even when available, remittances should not be considered as a sustainable development strategy.

Remittances are predominantly spent on consumption, rather than used as savings or for investment. A World Bank study on remittance expenditure patterns in six East European countries reveals that only roughly five per cent of remittances are used for business investment purposes (Mansoor & Quillin, 2007, p.64). Such a model of remittance use alleviates family poverty, but does not create many new jobs through investment, which would boost incomes and possibly prevent new migration flows.

Moreover, new consumption patterns, made possible by the availability of foreign exchange, translate into an increase in imports, which widens the balance of payments deficit. This stimulates national demand for additional remittance transfers. In this sense, remittances contribute to macro-economic instability (Hernandez & Coutin, 2006, p.199).

The income provided by remittances may also absolve governments in remittance-receiving countries from their responsibility to develop long-term economic and social policies to address poverty and inequality, which are the main causes of emigration (Phillips, 2009). From an economic perspective, Glytsos (2002, p.8) explains that

> *[t]he comfortable finance of deficits by remittances relaxes governments from adopting long-term economic policies for changing the structure of the economy to make it more competitive against the rest of the world.*

Therefore, excessive reliance on remittances might impede the diversification of the industrial system. Similarly, high remittance flows might relax governments from investing in the areas of social and welfare provision, especially as remittances are often higher than social spending. For example, remittances to Moldova in 2003 were estimated at USD 484 million, more than double the USD 190 million spent on social assistance and pensions by the Government of Moldova (Ruggiero, 2005, p.55).

A state's dependency on remittances can easily become a vicious cycle as reductions in public spending may lead to more migration and thus more remittances (Hernandez & Coutin, 2006, p.202). The decision to migrate may be motivated by poor welfare coverage, as well as few employment opportunities, resulting from the passivity of the government. Lack of employment opportunities are exacerbated by the fact that remittances are primarily spent on consumption rather than invested productively. To sum up, high reliance on remittances fuels government passivity and hampers private investment, which, in turn, affects the labour market and leads to more migration and, thus, more remittances. The vicious cycle of remittance dependency is illustrated in Figure 2.

In a development strategy based on remittances, migrants are expected to bear the risks and costs related to migration in order fulfil their basic needs and those of their families. Migrants are also expected to compete in the global market in order to secure minimal social and economic welfare, as these are no longer guaranteed by government action. Yet, a large part of the world's population is left out of the picture: those who don't migrate and don't have a migrant in their family. It is acknowledged that the 'poorest of the poor' do not migrate because of the costs involved (travel costs, documents and living expenses in the host country). International migrants constitute only 3 per cent of the world population while about 39 per cent, that is 2.6 billion people, lived on less than USD 2 per day in 2005 (World Bank, 2008). The majority of people are thus left without options: they cannot migrate nor can they rely on basic state provision. Even for those who can afford to migrate, generating remittances is not without costs.

## Costs of remitting

Remittances are often described as a costless source of income for developing countries as, contrary to loans, they do not need to be repaid (Hernandez & Coutin, 2006, p.193). Such a picture, however, is far from reflecting reality. For the great majority of remitting migrants, sending remittances requires taking risks, hard work and sacrifices.

The risks include the hardships involved in travelling to a rich industrial country. During the first half of 2009 alone, 339 people who attempted to cross the Mediterranean from North Africa to Italy and Malta were reported dead or missing. Another 87 went missing or died during boat trips from West Africa to Spain and 8 in the Aegean Sea between Turkey and Greece (Fortress Europe, 2009).

Moreover, remittances are, in the majority of cases, the fruit of hard work in rather unwelcoming labour markets and under poor conditions. In advanced industrial states, the vast majority of migrants are relegated to low-skilled and low-paid jobs. They are often used as a cheap and flexible labour force. A significant number of migrants also enjoy fewer social, economic and political rights than natives. The fact that no European country has ratified the 1990 UN Convention on the Rights of Migrant Workers and their Families is an indication of their lack of commitment towards improving migrants' wellbeing.

Migrants' sacrifices can also consist of emotional suffering. Such suffering can be related to separation from their families, working below their qualifications, or being subject to racism and discrimination.

The action of remitting itself is not exempt from costs and difficulties. Remittance transfers usually involve financial costs. A growing number of banks and financial institutions see the opportunity for profit that remittances represent[5]. Although many analysts and policymakers, including in the European Union, advocate for the reduction of remittance costs, governments of remittance-source countries take little action to remove obstacles to transfers and improve access to remittance services for poor people[6].

In addition, many migrants impose heavy constraints on their own spending in order to remit. Remitting can require large sacrifices considering the low wages and high living costs in advanced industrial countries. The sacrifices involved may prevent migrants from saving money and thus investing in business or having access to better accommodation or education.

All of these issues contradict the discourses presenting remittances as a costless source of income for developing countries. Hernandez and Coutin (2006, p.203) even suggest that remittances should be re-qualified as the '*dolor*'[7], rather than 'dollar', bill. When assessing the development potential of remittances, one should take into consideration the costs they entail.

## Conclusion

While remittances do contribute to poverty reduction, they should not be seen as a panacea for development.

Governments in remittance-receiving countries should seek to break the cycle of remittance dependency by ensuring good welfare coverage and a secure investment climate. This would allow remittances to be increasingly invested in the local economy, which, in turn, would generate more jobs, and decrease the pressure to migrate. The promotion of remittances should be only one part of a country's development strategy, accompanied by state policies aimed at guaranteeing effective public services, such as health and education, improving social security, and making the country safe for investment. The weaknesses inherent in development strategies based on remittances have come to light as a result of the current economic downturn. Remittance-receiving countries should also put forward the development benefits of migration and remittances in international arenas, such as the WTO and UN meetings. Finally, they should closely cooperate with remittance-source countries to ensure respect for migrants' fundamental rights.

Remittance-source countries, if they are really committed to boosting the development potential of remittances, should incorporate migration and remittances into their development aid policies. Such incorporation should go beyond mere acknowledgement in the discourse and involve more liberal immigration policies towards citizens of poor developing countries, as well as concrete efforts to facilitate remittance transfers. Immigration liberalisation does not need to involve a complete removal of restrictions, but a realistic increase in quotas for legal migrants. Perhaps what is more urgent in the current context is to stop the criminalisation of migrants. Not only is migrating not a crime, but migrant-receiving countries should recognise the significant contribution of migrants to their national economies. Finally, receiving countries should show their commitment to protecting the rights of migrants by ratifying the UN Convention on the Rights of Migrant Workers and their Families. ▪

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5 In 2005, the widespread money transfer organisation Western Union declared profits of more than USD 3 billion (Le Monde, 2007).

6 Lower remittance costs are a result of market mechanisms rather than governmental intervention.

7 'Dolor' means pain in Spanish.